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Eveliina Soini & Labinot Veseli

FACTORS INFLUENCING SMES GROWTH IN KOSOVO



TURUN AMMATTIKORKEAKOULU
TURKU UNIVERSITY OF APPLIED SCIENCES

Eveliina Soini & Labinot Veseli

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Small and medium-sized enterprises (SMEs) in Kosovo are very important to economic growth. There are 87,960 registered businesses in Kosovo. The percentage that SMEs account for is around 98 % in the economy of Kosovo and approximately 65 % of employees in Kosovo are employed by SMEs, therefore they have a significant effect on employment of the country. The enterprise structure is mainly dominated by micro enterprises (1-9 employees) and the growth level is steady but still at a low level.

Therefore this is a qualitative study to illustrate the external and internal issues affecting the growth of SMEs in Kosovo. There are a number of obstacles influencing their growth; external factors such as access to finance, competition, corruption and other barriers to trade. Internal factors, some deriving from the external ones, like management competences, lack of skilled labor, marketing strategies, innovation level and investments on technology.

This research is a case study of three Kosovar SMEs and together with previous literature a conclusion of internal and external factors influencing growth can be reached. The primary data was collected through qualitative interviews with managers of the researched companies.

The research reveals that there are a number of significant factors affecting Kosovar SMEs growth. The major factors being lack of access to finance, competition, corruption, globalization, laws and regulations, management competence, lack of skilled labor, and low investment in innovation, technology and marketing.

KEYWORDS:

SMEs, Micro sized companies, external, internal, obstacles, growth, Kosovo.

Eveliina Soini & Labinot Veseli

P&K YRITYSTEN KASVUUN VAIKUTTAVAT TEKIJÄT KOSOVOSSA

Pienten ja keskisuurten yritysten (Pk-yritykset) rooli Kosovon talouden kasvussa on merkittävä. Kosovossa toimii tällä hetkellä 87,960 rekisteröityä yritystä, joka prosentuaalisesti tarkoittaa 98 % Kosovon taloudesta ja työllistää n. 65 % kansasta. Näin ollen Pk-yritysten rooli on erittäin tärkeä työllistämässä sekä talouden kasvin kannalta. Kosovon yritys rakenne koostuu pääosin mikroyrityksistä eli 1-9 työntekijän yrityksistä. Kasvuntaso on ollut tasaisesti kasvava, mutta se on silti alhaisella tasolla.

Näin ollen tämä on laadullinen tutkimus siitä, mitkä ulkoiset sekä sisäiset tekijät vaikuttavat Kosovon yritysten kasvuun. Kosovossa on monia ulkoisia esteitä yritysten kasvun kannalta kuten esim. yritystoiminnan rahoittaminen, kilpailu, korruptio ja muut esteet kaupankäynnille. Sisäisiin esteisiin voidaan luetella johtamistaidot, ammattitaitoisen työvoiman puute, markkinointi strategia, innovaatiotaso sekä investoinnit teknologiaan.

Tutkimme kolmen Kosovolaisen Pk-yrityksen kasvunmahdollisuuksia ja yhdessä olemassa olevan kirjallisuuden kanssa pystyimme tekemään johtopäätöksiä kasvuun vaikuttavista sisäisistä ja ulkoisista tekijöistä Kosovossa. Ensisijainen materiaali kerättiin kvalitatiivisilla haastatteluilla yritysten johtajien kanssa.

Tämä tutkimus osoittaa, että Kosovossa on olemassa monia merkittäviä tekijöitä jotka vaikuttavat Kosovon Pk-yritysten kasvuun. Suurimmat esteet ovat rahoituksen saatavuuden vaikeus, kilpailu, korruptio, globalisaatio, lait ja asetukset, johtamistaidot, ammattitaitoisen työvoiman puute sekä vähäinen investointi innovaatioon, teknologiaan ja markkinointiin.

ASIASANAT:

P&K yritykset, sisäiset, ulkoiset, esteet, kasvu, Kosovo

CONTENT

LIST OF ABBREVIATIONS	7
1 INTRODUCTION	8
1.1 Background Problem	8
1.2 Problem discussion	10
1.3 Purpose and research questions	11
2 THEORETICAL FRAMEWORK	13
2.1 Definition of SMEs	13
2.2 Measuring Growth	15
2.3 Internal factors	15
2.4 External factors	18
2.5 Agriculture growth factors	20
2.6 Construction growth factors	21
3 METHODOLOGY	23
3.1 Research strategy	23
3.2 Research methods	23
3.3 Data collection	24
3.4 Selected research method	25
3.5 Scientific approach	25
3.6 Case study	25
3.7 Interviews	26
3.8 Respondents	26
3.9 Reliability and validity	27
4 EMPIRICAL FINDINGS	29
4.1 Country Facts	29
4.2 Overview of Kosovar SMEs	30
4.3 Economy	30
4.4 Reasons to invest in Kosovo	31
4.5 Facts and figures from 2004-2010	33
4.6 Agriculture and food processing industry	36
4.7 Presentation of Companies	37
4.7.1 Private Trade Enterprise Pestova	37
4.7.2 Aldi Company	39
4.7.3 Mak-building (Construction Company)	39

4.8 External factors influencing Firm's growth	39
4.8.1 Private Trade Enterprise Pestova	39
4.8.2 Private Trade ALDI	40
4.8.3 Mak-Building internal and external influences	41
4.9 Internal factors influencing firm's growth	42
4.9.1 Private trade Enterprice Pestova	42
4.9.2 Aldi	42
4.10 Kosovo as a place of Business	43
4.11 Innovation	45
5 ANALYSIS	46
5.1 Analysis of the companies	46
5.2 Analysis of factors influencing Kosovar SMEs growth	48
5.3 External Factors	49
5.3.1 Access to finance	49
5.4 Competition	50
5.4.1 Corruption	51
5.4.2 Laws and regulations	52
5.4.3 Globalization	53
5.5 Internal factors	54
5.5.1 Management competence	55
5.5.2 Employee education	55
5.5.3 Technology	56
5.5.4 Marketing	56
5.5.5 Innovation	56
6 CONCLUSION AND DISCUSSION	58
6.1 Research question 1: What are the external factors influencing the growth of SMEs in Kosovo?	58
6.2 Research question 2: What are internal influences affecting the growth of SMEs in Kosovo?	59
6.3 Discussion	60
6.4 Suggestion for further research	60
7 REFERENCES	61
7.1 Literature	61
7.2 Electronic sources	63

APPENDIXES

Appendix 1. Questionnaire to the companies

Appendix 2. Questionnaire to the companies (in Albanian)

Appendix 3. Answers to questionnaire: Aldi

Appendix 4. Answers to questionnaire: Pestova

Appendix 5. Answers to questionnaire: Mak Building

PICTURES

Picture 1. Stored potatoes

Picture 2. Raw potato storage

FIGURES

Figure 1. The dynamics of growth for the entrepreneurial venture (6 dimensions)

Figure 2. Land distribution in Kosovo

Figure 3. Number of SMEs for Q1 2010 Number of new enterprises

Figure 4. Number of businesses established in the agriculture and construction industry in Kosovo

Figure 5. Distribution of Agricultural land

Figure 6. Average yearly salary per employee during year 2007-2010

Figure 7. Number of employees during year 2007-2010

Figure 8. Companies' income during 2007-2010

Figure 9. External factors influencing the growth of SMEs in Kosovo

Figure 10. Internal factors influencing SMEs growth in Kosovo

TABLES

Table 1. Defining SMEs

Table 2. Established enterprises in Kosovo 2006-2009.

Table 3. Number of businesses established in the agriculture and construction industry in Kosovo

Table 4. Kosovar Agro-food Trade (€ million)

Table 5. The main external influences affecting firm growth

Table 6. The main internal influences affecting firm growth

LIST OF ABBREVIATIONS

ECIKS	Economic Initiative for Kosovo
IMF	International Monetary Fund
IPAK	Investment Promotion Agency of Kosovo
LE	Large Enterprises
OECD	Organization for Economic Co-operation and Development
OSMEP	Office of Small and Medium Enterprises Promotion
SME	Small and Medium sized Enterprises
EC	European Commission

1 INTRODUCTION

The republic of Kosovo which is located in Southeast Europe, between Serbia and Macedonia, is the newest country in the world since it got its independence on 17.2.2008. Kosovo has been for many years part of Yugoslavia, but after the war in 1998-1999 Kosovo finally separated from Serbia and now it can be seen as an independent country. Kosovo has developed rapidly these past years, and the biggest influence for this growth is foreign countries that are investing billions into the newest country.

In near future The Republic of Kosovo will be an attracting country for many companies because of its cheap labor, costs and the knowledge. Kosovo's potential can be seen from the median age which is 26,7 years, making it one of the younger countries in Europe. With a median age so young a country should invest in education. At the moment Kosovo uses 4.3% of GDP in education (CIA, world factbook).

Another attracting factor is location. Kosovo is close to Germany, Switzerland and other countries that have a large market share in today's business world. Kosovo is one of the developing countries in Europe with great potential to be competitive in close years. The sustainable growth takes years, but since the war ended in 1999 Kosovo has made improvements in many different areas; Infrastructure, taxation system and establishing new innovative companies. Kosovo's GDP has increased over 6 percent during the last decade. (IMF, 2010)

1.1 Background Problem

SMEs play a crucial role to almost all economies in the world, but especially to those in developing countries. Most of the companies are micro sized enterprises. A microenterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed 2 million euros. (www.europa.eu)

If these small enterprises could grow they would greatly affect the Kosovo economy. The Employment rate will remain the same if Kosovo is not able to establish more SMEs and help the existing ones to grow into companies that have an effect on the country's export and import rates.

There are several challenges to economy growth. Kosovo needs a great improvement in infrastructure. The overall business growth is slow and third and most important part is to provide an internationally competitive environment. These obstacles affect in SMEs growth both in importing and exporting phase.

Kosovo's growth has increased every year after the end of the conflict that occurred in the country, attributable in part to large public investments in post-conflict rebuilding as well as an increase in private investment (albeit from a low base). (World Bank 2009, 1)

In 2009 Kosovo's growth suffered sharp decline (appr.40%) after several year of rapid growth, but they have still a minimal effect in country's GDP (5 %). This means that the impact on overall growth is rather small. The drop in external demand has been offset by rising public expenditures and output growth has been sustained by high inflows of remittances and donor activity. Kosovo's banking sector has remained stable with deposits as well as credit to the private sector continuing to grow rapidly in double digits. The banks are more cautious now days in providing loans than couple years ago (World Bank 2009, 2).

Kosovo's domestic and external issues have a great negative impact on economy growth. For example, both imports and exports are hindered by the absence of customs controls in the Serb-dominated northern Kosovo, as well as by the non-recognition of Kosovo's customs stamps and license plates by Bosnia and Serbia. It will take years to solve these problems (World Bank 2009, 9)

The main obstacle for SMEs in Kosovo is to get the access to credit. Only about 10 percent of investment is financed by credit (over 85 percent of investment financed by own resources). This suggests that there is a need to strengthen risk management instruments that could increase banks' willingness to lend. In addition, it is critical to develop and strengthen micro-finance institutions that have the potential to lend to farmers and other rural entrepreneurs. This would involve transforming existing non-profit foundations into more sustainable, for-profit financial intermediaries, and raising awareness of the potential roles of small entrepreneurs in mainstream economic activities. (World Bank 2009, 16)

1.2 Problem discussion

Measuring company's growth is really challenging, especially in a developing country such as Kosovo. Studying firm growth can provide insights into the dynamics of the competitive process, strategic behavior, the evolution of market structure, and, perhaps, even the growth of the aggregate economy (Carpenter & Petersen, 2002). This is a lacking point in Kosovo, because companies are not measured by institutions or government, but more over they have free hands to work as they want. There are no strict governmental regulations, especially for small businesses.

Margi Lévy and Philip Powell (2005, 33) described, in their book *Strategies of Growth in SMEs: the role of information and information system*, that growth is determined by a combination of the entrepreneur, strategy and the firm organization. The same authors defined five key influences on SMEs (Levy & Powell 2005, 33)

1. Market
2. independence
3. personal influences
4. flexibility
5. innovation

These five steps are essential for SMEs in Kosovo as they lack almost in every of them. The SMEs in Kosovo lack in innovation partly because there are no institutions to provide better chances to establish profitable services or products. For instance SMEs in Finland are financed partly from public sector e.g. Finnvera, Finpro, Tekes and many more.

As said before SMEs play a crucial role in economic development and therefore it is important to study the influences of small enterprise growth. This paper examines the factors that influence a company growth in Kosovo.

1.3 Purpose and research questions

The purpose of this thesis is to study the growth factors of SMES in Kosovo. The idea for this thesis arose when the other thesis writer wished to do a research of his native country and especially the study of SMEs and their growth potential, and what are the obstacles for the to develop their businesses. The other author, Mr. Veseli's most of the family lives still there and many of them owns a micro sized company. Due to this fact it was a natural decision to conduct a study for them. A large amount of help was provided by Mr. Veseli's relatives when deciding to choose the companies to interview.

The authors have a personal interest in the SMEs growth potential and especially to research the obstacles for growth. The authors have seen a potential of SMEs growth in Kosovo, and authors predict a bright future for Kosovo SMEs. Therefore they wanted to explore the field of small business in detail.

The main objective of this study is to outline the obstacles and opportunities of SMEs and micro sized companies' growth in Kosovo.

The authors have considered the following objectives as the main frame of the study:

- 1) To profile the typical obstacles of SMEs and micro sized companies growth
- 2) Finding out SMEs and micro sized companies potential growth in Kosovo

These questions will be approached by literature study and research. The research will mainly focus on the factors hampering SMEs growth.

The authors have considered the following questions as mainframe for the research.

- 1) What are the external factors that influence the growth of SMEs in Kosovo?
- 2) What are the internal factors that influence the growth of SMEs in Kosovo?

These questions will be approached through interviews conducted in Kosovo and by researching previous relevant literature. The primary data and secondary data will be analyzed and it is essential to compare these findings to be able to draw conclusions.

2 THEORETICAL FRAMEWORK

This chapter presents an overview of previous literature related to the research questions. The first part of the chapter is an overview of literature about aspects that affect firm growth. The second part of the chapter presents and discusses the literature related to external and internal factors influencing SMEs growth.

2.1 Definition of SMEs

‘Micro, small and medium-sized enterprises (SMEs) are the engine of the European economy. They are an essential source of jobs, create entrepreneurial spirit and innovation in the EU and are thus crucial for fostering competitiveness and employment.’ (Günter Verheugen, Member of European Commission 2005, 3) The new SME definition, User guide and model declaration)

“The category of micro, small and medium-sized enterprises (SMEs) is made up of enterprises which employ fewer than 250 persons and which have an annual turnover not exceeding 50 million euro, and/or an annual balance sheet total not exceeding 43 million euro.” (Extract of Article 2 of the Annex of Recommendation 2003/361/EC)

Defining SMEs is challenging, because there is no single agreed definition of an SME. And numerous are applied among OECD (Organization for Economic Co-operation and Development) countries, and employee numbers are not the sole defining criterion. SME are usually independent non subsidiary firms which employ certain number of employees. In the European union the most frequent upper limit designation an SME is 250 employees, but some countries can set the limit to 200, while over the sea The United States consider SMEs to include firms with fewer than 500 employees. (OECD 2005, 17)

EU commission changed the definition of SMEs in 2005 from the previous one that was adapted in 1996. The changes were mostly done because of general economic developments since 1996, and a growing awareness to the specific barriers confronting

SMEs. The new SME definition is done for all business categories and also takes better account of different types of relationships between enterprises. The new definition also ensures that different support measures are awarded only to the ones that need them. Changes are also done because the businesses are now days more innovative and technology plays a crucial role as well. (EU Commission, 8)

Table 1. Defining SMEs

Enterprise category	Headcount Turnover	Balance sheet total
Medium-sized	<250	≤50 million
Small	<50	≤10 million
Micro	<10	≤2 million

(European Commission)

It is important to define SMEs, in implementing efficient measures and programs to support SMEs in every possible way.

SMEs play a big role in the creation of jobs and a country's employment rate. The most evident public benefit of small business growth is the contribution made by SMEs to employment. A large number of studies carried out in various countries have concluded that small business plays major role in job creation. (Hamilton, 2007, 297).

A key characteristic of an SME is flexibility, the ability to adapt to changing environment (Levy & Powell 2005, 22). These days there is lots of pressure for firms to be flexible in developing and developed countries. Companies are facing external pressures like a transforming market and a high speed technological change.

2.2 Measuring Growth

When researching factors affecting growth it necessary to first define firm growth and growth is measured. Various indicators are used to measure growth and there doesn't seem to be any general measurement. Measuring sales growth and relative employment growth during a specific time period is the most common indicators used. Indicators such as assets, market share, profits and output are also commonly used, however not as commonly as sales and employment. Output and market share vary greatly within industries and is therefore hard to compare, total assets also depends on the industry's capital intensity and changes over time and profits is not that relevant unless measuring size over a long period of time. Therefore sales and employment are the two most important indicators measuring firm's size and growth. Employment numbers is also a measure that is easily accessible, since it is an important figure for governments. Sales figures are on the other hand affected by inflation and exchange rates and it is difficult to compare sales figures between industries. That is why it is important to use multiple growth indicators to study firm growth. (Davidsson, Delmar & Gartner 2006, 189-216).

In developing countries SMEs are usually competing with price over added value. On the other hand SMEs in developing countries have generally a lower productivity than in developed countries and because a country's productivity level is a major indicator of improved living standards, added value should be seen as one of the important indicators of growth. (Lind 2005, 42-50).

2.3 Internal factors

Margi Lévy and Philip Powell argued that growth is determined by a combination of the entrepreneur, strategy and the firm organization. The author also defined key influences on SMEs growth, internal factors that reveal how decisions and features effect the growth of a firm.

Entrepreneurial influences- A firm's growth is dependent on the managerial knowledge (Macpherson & Holt 2007, 172-192). Training is crucial for the productivity and quality as well as it influences the effectiveness, efficiency and motivation of the employees

(Thassanabanjong et al., 2009). The SME owner has considerable personal influence over a firm's strategies, tactics and operations to engage in decision process across the firm. As a result, although a flat, informal organizational structure is likely to exist, decisions making tends to be quite centralized around the owner. The entrepreneurs' personality and behavior are to be causal factors for or against growth-orientated achievement. It is characteristic of small business that power decision are centralized at the level of owner-manager, so his or her personality, skills, responsibilities, attitude and behavior will have decisive influence on business strategy. (Levy and Powell 2005, 22)

Market competition has a larger affect for SMEs chance of survival and uncertainty is high as most of the smaller companies tend to have smaller share of the capital. This leads SMEs to have one or two major customers and are do not have big influence on prices. Larger companies with higher market share usually determine prices. (Levy & Powell2005, 21)

Education of employees- SMEs face difficulties employing and retaining skilled graduates, because they prefer to work for LEs that can offer higher salary, job security and career possibilities. In order to meet the demands of the fast changing work environment which is typically associated with SMEs it is essential that smaller firms ensure that they are able to attract, retain and motivate high quality employees with effective transferable skills through the existence of a strategic training plan and a specific budget for training (Jameson, 2000).

Marketing - According to Brush et al. (2009) marketing is another obstacle for companies to grow since many businesses confront challenges establishing effective distribution channels, communicating product features, pricing products and services in an attractive way, implementing sales and marketing efforts to win and retain customers and undertaking constant product development in order to sustain sales. SMEs generally do not have the knowledge or information about other markets, thus, this limit their ability to market their products to larger groups of customers and expand their business.

Technology- SMEs tend to have low productivity and they are weak in terms of competition which is the result of using inefficient technology, not maximizing machinery utility and not improving in technology due to the limitation of funding and most SMEs are mainly users of technology, not adaptors of technology (OSMEP, 2007 a).

The World Bank (2009) claims that investments in technology are required in order to build up existing capacity and to improve the quality and productivity of production which will generate in higher value-added products that will improve the competitiveness for firms.

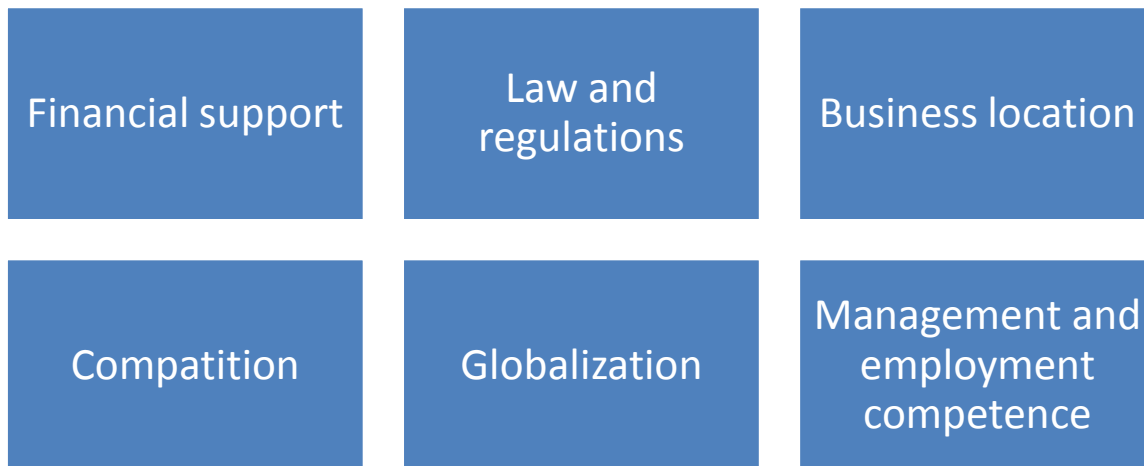
Innovation- Innovation also plays a crucial role in now day business and it is regarded as a key characteristic of SMEs, mainly due to the attitude of the manager. Innovative companies are able to respond within the bounds of the knowledge about existing products or services to changes required by the customer within their niche market. (Levy & Powell 2005, 22)

The impacts of globalization have pressured SMEs to greater demands. Innovation relies on bringing together different types of research and utilizing this knowledge to design new products, therefore innovation greatly relies on research and development investments.

Normally developed countries allocate about 3% of GDP to R&D activities. Some developing countries, including China, India and Brazil, have rapidly increased their R&D expenditure, to levels with those of the world's most developed countries (Morrison 2006, 52)

2.4 External factors

Figure 1. The dynamics of growth for the entrepreneurial venture (6 dimensions)



Financial support- According to Guffey business plan is essential when you start your own business. Unless you can count on the bank of your relatives you will need financial backing such as a bank loan or venture capital supplied by investors. A business plan is critical for securing financial support. (Guffey, 2008, 401)

Throughout the region, SMEs do not have an easy access to credit and equity finance. This is because of the weak banking institutions in the region, the absence of capital markets, and the weak legal framework for credit and collateral. Finance in general are critical issues for growing businesses, forming the primary resource base from which other factor inputs are acquired. There are various ways the business owners can finance the growth of their firms but the fundamental decision is whether or not to accept external equity finance return for part ownership of the business. If owners allow external equity finance they choose to relinquish part of their control to either a financial institution or other individuals.

Financing the firm is essential and getting access to finance plays a crucial role on firm's growth process. For many lenders it is almost impossible to assess the risks of an investment this is mainly because of the high level of uncertainty. (World Bank 2001, 77)

Laws and regulations- The World Bank researchers argued that constraints that are facing for the growth of SMEs are complex tax systems. (World Bank 2000, 77) Also another shortcoming in South Eastern Europe is low level of trust in the court system to enforce claims, and the need to pay significant bribes for access to basic public services.

For SMEs to close the gap with their larger counterparts in the world of technology, further action by regional governments will be required. Actions need to be done in improved infrastructure, costs and IT training and in information relating to the business opportunities that e.g. e-commerce can generate (Harvie & Lee 2005, 11)

Business location- The location of your business must be accessible to the customer base and should be built to ensure efficient accessibility for future clients. When choosing a location the business must take into account the costs of moving or establishing their business in the location. According to one online article source (ezinearticles) when choosing locations many different factors must be taken into account. The labor costs, transport, proximity to suppliers, workforce disruption, language factors, and exchange rates are some of the essential location factors.

According to Herzong et al, the change that initiates a location search is the need for new production capacity to meet market demand. The change that initiates a location search could be changes in perceived market opportunities, or changes in the entrepreneur's own situation. After location consideration the decisions makers they can gather information on the tax levels, wage-rate levels, and other cost levels at various locations (1991, 66).

Competition- Defining competition can be done in several ways. It is important that in any discussion of competition is to recognize that, entering into competition and organization is seeking competitive advantage; this competitive advantage is the key of corporate success. (Walley 1998, 186)

A survey for SMEs in developing countries was made by World Bank. The survey demonstrates that to any individual firm, competition poses a threat to survival. Even

though competition is a threat to survival, it is the competition that drives firms to improve productivity and therefore drives growth.

In 2002 there were several surveys conducted for the obstacles that arise in SME growth in Kosovo, and the main obstacle was “unfair competition” that includes taxation, the informal economy and public services is considered as the main barrier, the intensity of which has remained constant throughout the years (Dinh, Mavridis & Nguyen 2010, 9).

Globalization- Perhaps the most significant source of change impacting many organizations today is the increasing globalization of organizations and management. This occurs because firms to control costs, especially to reduce labor costs. Of course another reason why firms are becoming more global is the response to competition. (Griffin & Moorhead 2009, 28) SMEs that are internationally active are generally growing faster than their domestic equivalents. This gives pressures to SMEs to develop environmental strategies to remain competitive. Many SMEs lack the resources to meet the global challenge to internationalize.

2.5 Agriculture growth factors

Agriculture is ranked as one of the extraordinary success stories past decades. In poorer countries with lower productivity rates and growing populations, agriculture continues to expand into marginal and fragile lands. Helping developing countries to intensify their agriculture may seem the most obvious and sensible solution but intensification at least under current models carries significant stings in its tails (Steiner, 2006, 3). The lacking point here is that 60 percent of ecosystem services- such as fresh water, air and water regulation, and the regulation of region climate are being degraded or used unsustainably (Steiner, 2006, 3).

Agricultural development plays a crucial role to overall economic growth in many developing countries. As farmer's incomes rise, so does their demand both for farm inputs and services, and for non-farm goods. There are more facilities processed if agricultural production increases (Båge, 2006, 4).

The growth and development of agriculture requires investment and technology. Through advanced technology huge productivity gains are possible. Despite sustainable improvement over the years, the transfer of technological achievements in the agricultural sector, remains as low as around 40 per cent. Comparing this with developing economies it is estimated to be only half of that. The low level of technology transfers has not only wasted valuable resources of technology available to the agricultural sector but has also hindered the development of agricultural and urban economy (Xuedong, 2006, 1)

The main technological challenge is to develop in a way that is relevant to small farmers and to create the conditions they need to transform their small plots into viable small business that makes a vital contribution to local and national economies (Båge, 2006, 5). Increased spending on agricultural research is vital, but it is equally important to ensure that the research carried out benefits the smallest farmers.

The competition is intense in agriculture business. Water is an issue, because it is used in many different purposes. Water is used for economical purposes such as growing food and energy production. Poor people needs for drinking water to compete with these economic uses in developing countries. When water competition gets heavy usually the suffering part is environment (Catley-Carlson, 2006, 8).

Agricultural policy has often developed without concern for principles and competition policy. Historically agricultural policies have been primarily devoted to improving the welfare and agricultural procedures, because of the political imperatives and social values (OECD, 2004, 15).

2.6 Construction growth factors

The construction business most generally starts by ambitious construction project managers and executives. Managing construction business differs from the others and most of the times managers are not likely prepared to take on the range of responsibilities forced on them in managing the business of construction in its entirety. (Ganaway, 2006, 1)

Ganaway (2006, 1), in his book *Construction business management: a guide to contracting for business success* clarifies requirements for managers before establishing

construction company. The initiatives are important to know you are capable to manage yourself the company. Passion plays crucial role in field of construction.

The construction industry is seen as a highly turbulent an, rapidly changing, very complex, and extremely competitive. (Chen & Mohamed, 2007, 62)

According to Chinowski and Meredith there are numerous factors that have impacted construction industry in the past decade. The first is the emergence of knowledge-based rather than skill based environment. The focus is on expertise in areas such as technology, economics and market development. In the past the focus was more to remain with a single employer for an extended period of time in the tradition of professional apprenticeships.

The second factor influencing in companies growth in construction industry is the information revolution e.g. new technique, systems and platform. The third essential factor is the rapid change of construction industry and competition. The tough competition has forced several companies to improve efficiency and cost effectiveness. (Chinowski & Meredith 2000, 1-9)

According to Langford and Male companies growth can be achieved in many ways. Through growth in size where managers' focus is on the external environment in order to pursue opportunities and less on internal efficiencies or growth in size and efficiency where the attention is on external opportunities that are presented in the business environment and internally to increase efficiency. (2001, 108)

3 METHODOLOGY

The objective of this chapter is to describe and argue the research methods and methodology used for this research. This chapter will also present an evaluation of sources and identify methods used to increase reliability and validity.

3.1 Research strategy

To find out answers to the research questions a research strategy has to be planned and designed. To get valid and reliable results different methods and sources will be used, making sure they are also relevant to the research objective. In addition it is critically important that the materials and data collected are analyzed and examined to be able to make justifiable conclusions.

The research process started by collecting secondary data about Kosovar SMEs situation and about the overall economic situation in Kosovo and reviewing that data. The primary data will come from a questionnaire conducted for this research. The research questions were decided after reviewing the secondary data and defining the research objective. The interview questions were sculpted after studying the relative data about SMEs in the Kosovo area to bring relative answers.

The answers provide the primary data for this research and that together with the secondary data will be analyzed and argued to reveal the most important results. Finally, conclusions will be drawn on the results to answer the research questions

3.2 Research methods

Research can be divided into two mostly used methods and these are qualitative and quantitative methods (Ghauri, Gronhaug & Kristianslund 1995, 83-84). In the quantitative method data is collected through a systematic empirical study and the results can be quantified with the help of statistics and mathematics (Saunders, Lewis & Thornhill 2007, 406). In qualitative research it is possible to compare and study several determinants and analyzing and testing them empirically will prove if there are relationships to be found in

order to draw conclusions on the research. In Qualitative methods on the other hand the data is collected using a few objects to study and it cannot be transformed into numerical form unless simplified. Qualitative methods have an emphasis on understanding, interpreting and observing the data in a natural setting and with a sort of insider's view (Ghauri, Gronhaug & Kristianslund 1995, 85). Also Gummesson (2000, 4-6) says that the qualitative approach is more appropriate for research in business and management administration.

A qualitative approach is more appropriate to fulfill the purpose of this research, since this thesis is researching what factors are affecting negatively on firm growth, because of the fact that observations, beliefs, ideas and point of views would be difficult to measure in a quantitative way. By studying the firms' internal and external attributes with the qualitative approach it is possible to understand the opinions and beliefs that are affecting firm growth. On the other hand the quantitative methods will be used to measure how the firms have grown or if they have. With the quantitative method it is possible to compare different numerical growth measures. Data is collected from each firm regarding their income, sales and number of employees which we have chosen as factors to compare. The data is collected with a questionnaire sent to the companies by email.

3.3 Data collection

According to Ghauri, Gronhaug & Kristianslund (1995, 54-58) depending on the sources and techniques ones uses for gathering data it can be divided into secondary and primary data. They go by saying that primary data is data collected by using techniques like interviews, questionnaires and tests. When on the other hand secondary data refers to sources like literature, articles and documents that have been collected by another researcher or institution. In this thesis secondary and primary data are used respectively. Secondary data used has been evaluated critically and collected from books, articles, statistics and internet sources. Secondary data has been collected to gain an insight on the situation of SMEs in Kosovo and also to suppose the methodological part of the research.

The primary data was collected from qualitative interviews conducted in three Kosovo companies with each firm's manager. The questionnaires were sent to Kosovo and translated to Serbian and then circulated to the companies.

3.4 Selected research method

To be able to create the research questions a general overview of SMEs situation in Kosovo and the factors affecting growth is needed. The questions require a better and qualitative understanding of how Kosovar SMEs are handling these factors and how they see them influencing growth of the firms. On that note the qualitative method has been selected as the main research techniques, but also the quantitative method is used to research a few determinants.

3.5 Scientific approach

There are generally two theories on the relationship between theory and research, the deductive and inductive theory. The difference between them is which is done first, gathering data or creating a theory. In deductive research the theory is created first and then tested with observations and data collecting and then rejecting or accepting the theory. In inducting research data gathering and observations are carried out before making assumptions and theories (Ghauri, Gronhaug & Kristianslund 1995, 37).

This thesis has been conducted using the inductive approach. Although in some parts the literature available and the answers of the interviewees has steered the thesis in a new direction.

3.6 Case study

A case study method has become popular in management research. A case study is usually used to make general assumptions of a larger field, by researching and observing one or a few components in the field, rather than research the whole field. This approach is over five hundred years old dating back to the views of Newton and Descartes who stated that the whole is a sum of its parts (Gummesson 2000, 87).

This thesis also aims to study a few samples and make bigger conclusions about Kosovar SMEs growth. This thesis uses the multiple- case study approach to be able to compare

and contrast the results of different case and to also consider what they have in common and what is unique in each case.

3.7 Interviews

Since the thesis aims to make conclusions of the whole Kosovo SMEs, there is a need to collect as much significant data from the managers of the companies as possible. The data will help to deeper understand the external and internal factors affecting SMEs growth in Kosovo.

The qualitative questionnaire that will be used to gather the primary data is much less structured than a quantitative questionnaire would be as Ghauri, Gronhaug & Kristianslund (1995, 311-312) conclude.

Since, we were not able to travel to Kosovo to conduct the interviews and had to send out the questionnaires, the questionnaire would be labeled as a semi-structured interview. There are different approaches to qualitative interviewing, the unstructured also known as in-depth interviews and the semi-structured interviews (Ghauri, Gronhaug & Kristianslund 1995, 315). The questionnaire was semi-structured and we intended to get all the answers via email, but we also made a few short phone calls to get the annual turnover numbers and such. But because of the calls where expensive we did not do the whole interview by phone and did not ask too many follow up questions after the email answers. Knowing this fact we made the questions open-ended and gave the respondents lots of space to answer, hoping it would encourage them to give widespread answers, explanations and points of views. The difficulty with open-ended qualitative questions is that the interviewee's point of view is always guiding the interview. Therefore the literature review was conducted to get as much relative subject covered in the questionnaire and an open comment section was added to the end of the questionnaire. Also the language barrier proved to be a difficulty, since the questions had to be translated into Albanian there might have been some view lost in translation, luckily the author also speaks the language which minimized that problem.

3.8 Respondents

For choosing the sample the non-probability approach was chosen. Meaning that the sample was not a random sample, but some companies were more likely to be chosen

instead of others (Ghauri, Gronhaug & Kristianslund 1995, 74). Also the sample was more of a convenience sample, where units that we researched were in convenient reach to us, keeping in mind the objective of researching SMEs and mainly in the agriculture industry.

The companies selected for research are results of contacts through the other authors family members, who were able to assist with the translating of the questions and they also had very good business contacts in the community. The questionnaires were sent to Mrs. And she translated them and took to the respondents, she then translated them back to English and emailed us the answers. The respondents were all managers and founders of the companies, which was important for the research since they make the decisions and guide the way of the SMEs.

The respondents are as follows:

- ALDI Company, Manager Mr. Gani Durmishi
- Private Trade Enterprise Pestova, Founder and manager Mr. Bedri Kosumi
- Mak-building, manager Malik Muzaqi

3.9 Reliability and validity

For the assurance of this researches objectivity, reliability and validity of the data are very important. Reliability and validity are the two main emphases that have to be taken into notice to reduce the possibility of getting the answer wrong. Reliability and validity can be separated into two parts, internal and external concepts. Internal reliability meaning is there more than one researcher to the study and can they agree on what they see and hear. External reliability then again means that to what extent are the results the same if the research would be done again. It is difficult to reach full external reliability since the determinants change with time, but to reach high reliability for this research the research steps and strategy have been carefully described here. So if the research should be replicated the other researchers could follow this strategy under the same conditions to get similar results (Saunders, Lewis & Thornhill 2007, 149-150).

Internal validity refers to whether the results obtained within the study are true and whether

the researchers can agree and come to the same conclusions. The authors need to have a good and coherent match between theory and observations. Internal validity is appreciated in qualitative research, since researchers spend a long time on the research and it usually results in being able to connect the observation with the relative concepts. External validity on the other hand refers to the question if the results of the research are applicable to other populations, setting and periods; meaning can the results be generalized (Gronhaug & Kristianslund 1995, 33). This can be a problem for qualitative research since the samples are usually only a small part of the population. In this thesis the questionnaire answers are in the appendixes and the answers were first analyzed separately by both authors and then thoughts combined to increase the validity and to decrease the possibility of authors own interpretation of the data.

4 EMPIRICAL FINDINGS

This chapter highlights the results of the empirical data collected from qualitative interviews and the relative literature that was researched. In the beginning of this chapter we present the backgrounds of Kosovo and the researched companies and thereafter we outline the respondents' views on their companies growth and development and the obstacles that they have mentioned. The respondents' answers are divided into external and internal obstacles.

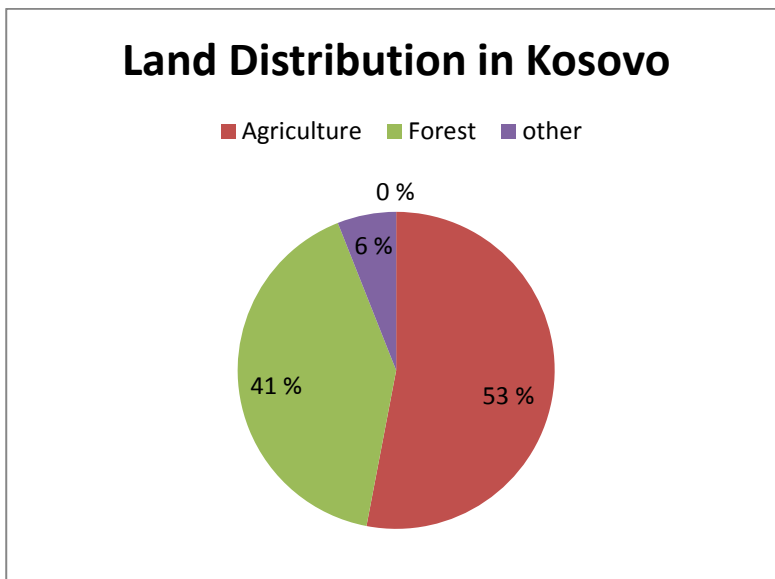
4.1 Country Facts

The Republic of Kosovo is one of the smallest countries in Europe with area of 10 908 km². Populations is 2.2 million and 500 000 people living abroad. Kosovo's capital city Pristina is the biggest city with 650 000 inhabitants and other major cities are Prizren, Peje, Mitrovica, Gjilan and Ferizaj. Even though Kosovo is not part of EU it still uses EURO, because it has not yet been able to establish own currency. There are five ethnics groups in Kosovo, the major of inhabitants are Albanian with 90 % of the population Serbian 5 %, Muslim Slavs (Bosnian, Gorani) 2 %, Roman 2 % and 1 % Turks. The main religion is Muslim with 90 % and others are Serbian orthodox with 7 %.

Kosovo declared its independency in 17th of February 2008. this makes Kosovo the youngest independent country in the world. Most of the EU countries have recognized Kosovo as an independent country and also USA, but still there are some EU countries that have not, for example Spain and Greece.

Kosovo has competitive and educated workforce, enviable natural resources (mining, agriculture), low taxes and transparent tax system, high purchase power through remittances (approx. €400 million annually), customs free access to the EU market and CEFTA members market.

Figure 2. Land distribution in Kosovo



4.2 Overview of Kosovar SMEs

There are 87,960 registered businesses in Kosovo. The percentage that SME account for in the economy of Kosovo is around 98 % and SMEs play a crucial role when it comes to economic growth. As mentioned before enterprise structure is mainly dominated by micro enterprises (Employees 1-9). Approximately 65 % employees in Kosovo are employed by the SMEs and contribution of SME sector in GDP is 80 %. (Berisha-Namani, 2009, 26)

The main issues to gather data about enterprises in Kosovo is the inadequate information. Without good information the government is unable to gain an understanding of POE (publicly Owned enterprises) performance or understand and manage overall fiscal risks. Almost all the data that is collected and analyzed are assumptions. As we can notice from the table chart in the page 11, most of the companies that are established are micro sized enterprises.

4.3 Economy

Sustainable growth has occurred in Kosovo past 10 years. According to International Monetary Fund (IMF) statistics Kosovo 2010 estimated GDP is \$5.4 billion and GDP per capita is \$2,750. Estimation of growth rate is 3.5 % and inflation rate is 1 %. In investment sector the estimation is 35 % of GDP. The GDP composition by sector is agriculture 13 %,

industry 22 %, and services 65 %. Agriculture products are fruits and vegetables (potatoes, berries), wheat, corn, wine and beef. Industry sector contains mineral mining, energy, telecommunications, forestry, agriculture, metal processing, construction materials, base metals, leather, machinery, and appliances.

Unemployment rate in Kosovo is 45 % of the labor force and 30 % of Kosovo's citizens live below the poverty line, and 13 % live in extreme poverty.

Authors saw IMF's estimations were the most accurate and trustable. Kosovo statistical estimation of 2010 was all above the IMF estimations.

4.4 Reasons to invest in Kosovo

1. Central location in the region
2. Young, educated, multilingual and dynamic population
3. Competitive, flexible and well skilled labor force
4. Modern telecommunications
5. Modern, EU-compatible legislation
6. Sound banking system
7. Currency :EURO
8. Free access to EU-market and CEFTA members market
9. Great investment opportunities
10. Low tax burden and modern business support institutions

(Investment Promotion Agency of Kosovo, 2010)

There is no particular acknowledged definition of SME. The OECD defines SMEs based on employment figures. In Kosovo enterprises that have 1-50 employees are considered as Small Sized enterprises, while medium sized enterprises are firms between 50-100 employees. (Berisha-Namani, 2009, 3)

SMEs play a crucial role to almost all economies in the world, but especially to those in developing countries. Most of the companies are micro sized enterprises. A

microenterprise is defined as an enterprise which employs fewer than 10 persons and whose annual turnover and/or annual balance sheet total does not exceed 2 million euros.

The problem here is that these small enterprises do not play an important role in Economy growth and do not affect in import and export rates. The Employment rate will remain the same if Kosovo is not able to establish more SMEs.

There are several challenges to economy growth. Kosovo needs a great improvement in infrastructure. The overall business growth is slow and third and most important part is to provide an internationally competitive environment. These obstacles affect in SMEs growth both in importing and exporting phase.

Kosovo's growth has increased every year after the end of conflict that occurred in the country, attributable in part to large public investments in post-conflict rebuilding as well as an increase in private investment (albeit from a low base). (World Bank 2009, 3)

In 2009 Kosovo's growth suffered sharp decline (appr.40%) after several year of rapid growth, but they have still a minimal effect in country's GDP (5 %). This means that the impact on overall growth is rather small. The drop in external demand has been offset by rising public expenditures and output growth has been sustained by high inflows of remittances and donor activity. Kosovo's banking sector has remained stable with deposits as well as credit to the private sector continuing to grow rapidly in double digits. The banks are more cautious now days in providing loans than couple years ago. (World Bank 2009, 3).

Kosovo's domestic and external issues have a great negative impact on economy growth. For example, both imports and exports are hindered by the absence of customs controls in the Serb-dominated northern Kosovo, as well as by the non-recognition of Kosovo's customs stamps and license plates by Bosnia and Serbia. It will take years to solve these problems (World Bank 2009, 4)

The main obstacle for SMEs in Kosovo is to get the access to credit. Only about 10 percent of investment is financed by credit (over 85 percent of investment financed by own resources). This suggests that there is a need to strengthen risk management instruments that could increase banks' willingness to lend. In addition, it is critical to develop and strengthen micro-finance institutions that have the potential to lend to farmers and other rural entrepreneurs. This would involve transforming existing non-profit foundations into more sustainable, for-profit financial intermediaries, and raising awareness of the potential roles of small entrepreneurs in mainstream economic activities. (World bank 2009 p.16)

4.5 Facts and figures from 2004-2010

There is great number of enterprises established in Kosovo and in a short amount of time.

Preferred economic activities in the first quarter of 2010 are: trade with 844 companies (37.2%), transport and telecommunications with 275 (12.1%), construction with 253 (11.2%) hotels and restaurants with 226 (10%), 210 processing industry (9.3%), real estate and leasing with 172 (7.6%), followed by other social and personal activities 139 (6.1%) as long as other activities include the rest of the remain.

The category of number of employees by 1-4 (employees) comprises about 2195 companies (96.8%) of new enterprises, the category of 5-9 with 59 (2.6%), while other categories include the rest remaining or they are not part of it.

Table 2. Established enterprises in Kosovo 2006-2009. 99, 5 % are Micro Sized Enterprises. Number of SMEs for Q1 2010 Number of new enterprises

Classification	Number of employees	Number of businesses	%
Micro enterprises	1 - 9 employees	2254	99,43
Small enterprises	10 – 49 employees	13	0,57
Medium enterprises	50 – 249 employees	- -	
Large enterprises	250 < employees	- -	
Total		2267	100,00

Figure 3. Number of SMEs for Q1 2010 Number of new enterprises (Statistical Office of Kosovo 2010)

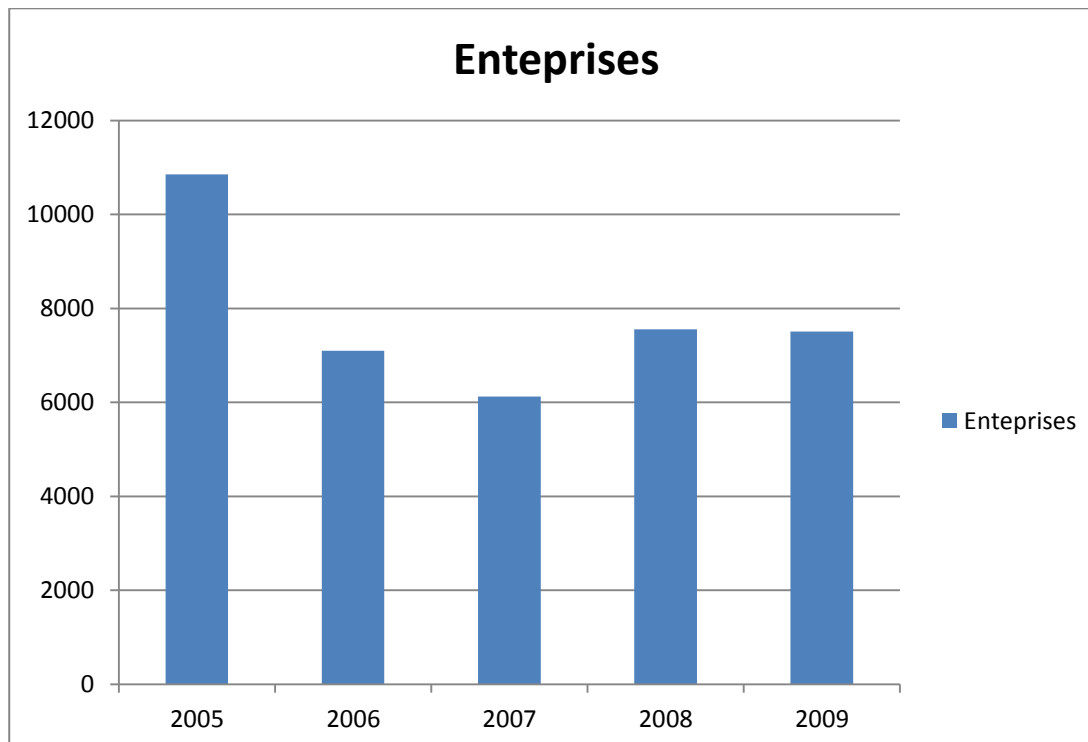
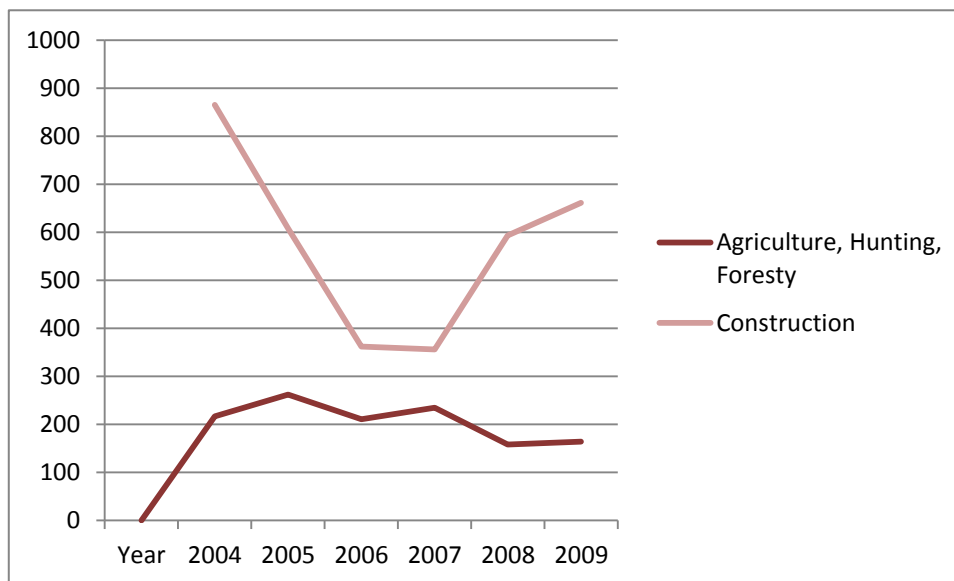


Table 3. Number of businesses established in the agriculture and construction industry in Kosovo

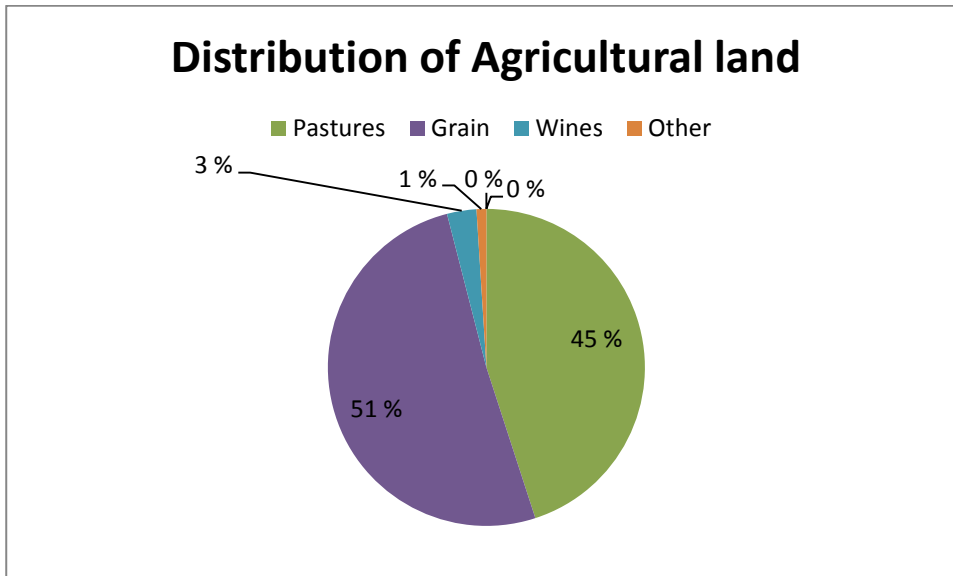
Year	Agriculture, Hunting, Forestry	Construction
2004	217	865
2005	262	608
2006	211	362
2007	235	356
2008	158	593
2009	164	661

Figure 4. Number of businesses established in the agriculture and construction industry in Kosovo



4.6 Agriculture and food processing industry

Figure 5. Distribution of Agricultural land (Ministry of Forestry, Agriculture and Rural Development)



In a developing economy, development dynamics requires that the overarching agricultural sector inspires and in turn, gets inspiration from the expanding industrial sector. Agriculture and industry has a great impact in the process of economic development. It has a profound bearing on our understanding of the nature and causes of growth on income and wealth. (Agarwal 1996, 1) The agriculture sector has a significant role in economy growth and it contributes product through its output performance. Agriculture forms basic and dominant part of the economic activities in such an economy.

Since the conflicts ended in 1999 the food industry has increased tremendously even though with limited financing and tight budget constraints (Hayashi 2005, 2). Agriculture has always played a crucial role in Kosovo's economy, but it declined during the conflict.

Kosovo is well endowed with agricultural land. More than 60 % percent of the population lives in rural areas and most of them are working in the agricultural sector; Kosovo has a long tradition in this area. Food processing industry has a great impact on Kosovo's GDP with 19 percent contribution and it's the main source of income for the majority for Kosovar people (Economic Initiative for Kosovo – ECIKS 2008, 17). With diminishing opportunities and falling incomes, Kosovar agriculture has become an economic activity of last resort,

providing a critical source of income (World Bank 2009, 84). Farming employs approx. 35 percent of the total labor force in Kosovo. (World Bank 2009, 83)

Agro-food imports are large and growing, from €280 million in 2005 to €470 million in 2008, an increase of 68 %. Exporting as well grew tremendously over the same period, from €8 million to €20 million, an increase of 156 percent. Kosovo trades agriculture goods mainly with its neighbors, in particular Serbia, Macedonia, Albania, Greece, and Montenegro. (World Bank 2009, 85)

Table 4. Kosovar Agro-food Trade (€ million) (Statistics of Kosovo (World Bank 2009, 87))

	2005	2006	2007	2008
Imports	285,5	319,4	384,1	473,7
Exports	7,9	11,6	18,1	20,7
Net exports (exports minus imports)	-277,6	-307,8	-366,0	-453,0

4.7 Presentation of Companies

4.7.1 Private Trade Enterprise Pestova

Pestova was founded in 1991 and is producer processor and seller of potato and potato products. Pestova is a private company established in 1991 and re-registered in 1999. Since January 2008, 33% of company shares belong to the European Bank for Reconstruction and Development (EBRD), while 67% belongs to Pestova. The company has a 5000m² production factory and works in cooperation with 100 farmers in the region. The company's main office is in Pristina and the business activities take place in the region of Pestova. Currently they have 79 employees.

Bedri Kosumi is the founder, director and innovator of the company, he has a farming background and many years of business experience. He has been able to increase the

company's incomes yearly. In the early years of the company the business was focused on cultivating and producing potatoes but following new markets trends the company also focused in the production of crisps and frozen potato products.

Picture 1. Stored potatoes



Picture 2. Raw potato storage



4.7.2 Aldi Company

Aldi Company is a Dairy company located in Mitrovica, Kosovo. The total amount of employees is 30. Company is relatively small and it operates mainly in nearby cities. Aldi's main products are milk, Yoghurt, sour milk, cream, filled pepper with cream and white cheese. Main clients are Kebab and burek stores, Supermarkets in Mitrovca and Vushtrri municipalities. Company's manager is Gani Durmishi.

4.7.3 Mak-building

Mak-Building Construction Company was founded in the beginning of 2000. Company's manager Mr. Maliq Muzaqi's vision has kept company profitable for several years. Mak-Building has 30 employees at the moment. Company has been really active in recruiting process because of the demand. Since the conflicts ended in the end of 1990's Kosovo has done some major improvements with the reconstruction process. Mak-Building has been one of the companies that are part of this reconstruction.

4.8 External factors influencing Firm's growth

4.8.1 Private Trade Enterprise Pestova

Pestova director Kosumi mentions difficulties in finding skilled workers and therefore they have developed a concrete and specific demonstration program for new workers. All though he mentions the potential of Kosovar youth, he answers' that they have problems finding skillful employees and managers. Pestova has in the last 36 months introduced six totally new products and acquired new technology to support the new products; they have acquired two new product lines and also strengthened the existing product lines. He mentions no problems in financing the investments. Mr. Kosumi answers that they have all the latest technology in the company. The company has been able to acquire the new technology and introduction of new product lines by loans and also by investing the company profits back to the company.

Even though Pestova has been able to increase profits yearly, Mr. Kosumi mentions government restrictions as a main fact that needs improvement. Pestova has faced the difficulties with the tax rate being the same for all products and doesn't give any protection to domestic products. He also mentions problems with the infrastructure; like that there is

no guaranteed supply of water and electricity. He mentions that people have the interest to become entrepreneurs and the young people have lots of potential to be innovative but the many governmental factors make it difficult. Therefore the conditions for SMEs are poor.

Corruption is mentioned repeatedly, Mr. Kosumi says that it is present in all fields of work and slows down business significantly, it makes the competition unfair. He mentions the competition to be unfair with foreign companies as well.

Mr. Kosumi mentions the tax rate change and a better function of the tax authority as main changes in Kosovar SME situation, but he still mentions that the government is not being as SME oriented as they should. Mr. Kosumi recognizes that there has been positive changes in legislation to support business actions and also that a practical governmental institutions have become present in providing better space for SMEs in Kosovo.

4.8.2 Private Trade ALDI

In the beginning Aldi Company was financed through family and bank loans. Family was the first financer for the company. The manager Gani Durmishi says that without family's support the business start would have been impossible. Of course the company had to apply for loan but the company benefits mainly from the grants offered by different organizations. Revenues derive from sale of the products to small shops, to public enterprises and to restaurants and hotels.

One problem according to Durmishi is unfair competition, corruption and recruiting skillful employees. The competition is unfair because in northern part of Kosovo companies operate illegally. Companies there do not pay state taxes, and are with lower prices. This is of course worrying as lot of the products with expired dates enters in Kosovo market and endangers people's life and our company's reputation.

There are also governmental law restrictions that hamper Aldi's growth. VAT tax rate is 16% for all the products that Aldi provides, nor protection of local (home) products. As Kosovo faces problems with electricity and water, it affects in out every day working tremendously. Non equal opportunities are also a problem that Kosovo SMEs are facing.

As in every poor country corruption is a big problem, and Kosovo does not differ from this. Mister Durmishi says corruption is a problem because you cannot win a tender in the right

way. Usually people pay bribery or corrupt bid issuers in Kosovo, benefit in having certain bid won.

4.8.3 Mak-Building internal and external influences

Mr. Muzaqi is the head of the company and makes all the important decisions. Company has only one office where Mr. Muzaqi works and all the other work is done in different fields. So basically the company does not have Marketing, R&D and other departments. Mr. Muzaqi says that company measures the growth through the incomes and different projects. Company does not act abroad and the main cities they do work are Vushtrri and Mitrovica. The goals of the company are to be successful on the performance as well as providing the best quality through their work.

Mr. Muzaqi sees that Company's future is really bright as more projects are ordered and of course to maintain the improvement Mr. Muzaqi says employees training, having needed technology is the key to success, he also thinks that it is crucial to have fair competition.

Mak-building's staff has very good educational experience. The company has qualified engineers as well as lots of professional experience in construction, which enables the development of the company. Most of the employee's posse's good business background experience in this field of work. Finding skillful employees is not easy in Kosovo says Mr. Muzaqi.

In the past 36 months the company has introduced new products, acquired completely new technology and upgraded already existing product line. These three parts are essential for the company to be profitable. Another advantage that the company has in having the needed technology says Mr. Muzaqi.

The competition in construction field is really huge. But Mr. Muzaqi says that they don't face any problems with it so far. Mr. Muzaqi sees that location is really important but more important is the quality of work they provide.

4.9 Internal factors influencing firm's growth

4.9.1 Private trade Enterprice Pestova

Pestova names its growth strategy to be: "Reducing expenses, increasing market share and broadening the product family and penetrating the EU markets". Pestova measures its growth by numbers like income and sales and also by the number of business partners and by the regional market share.

Location is important for the company and so is the quality of their products. The education level and quality of workers available has gotten better lately, but Pestova still mentions to have difficulties in getting skilled labor. Therefore Pestova has developed a training routine for employees to be competitive and provide quality products.

The company has been able to be profitable and make investments with the profits and with some loans. Director of Pestova does not mention access to finance as a significant problem.

4.9.2 Aldi

According to Durmishi the structure of company is very centralized. Mr. Durmishi does the marketing, finance and planning of the company though with a help of some of the employees. The beginning was really difficult he says, because finding proper machinery was challenging. Durmishi says that his experience towards the field of work he does helped him tremendously. He learned a lot from his relatives who had a farm and cows. This gave him an advantage because he learned how he should work in industry of agriculture. Mister Durmishi says he gained more knowledge by attending courses regarding SMEs.

Finding skillful employees is really difficult says Durmishi. This is due to different specifics of our company, but they manage to do so. The key to success is the recruiting process says Durmishi. In recruiting process Mr. Durmishi says they initially inform employees with overall situation of the company, get them aware with the technology used in the company and with the advantages and disadvantages that employees might face during the work. Mister Durmishi says it is essential for employees to be aware of protecting themselves

from potential risks while working, which are the knowledge of how to use company's protection devices in emergency situation, in another we let them know with the potential challenges. In addition to this Aldi's new employees initially go through code of conduct procedure in the company.

Mr. Durmishi says that is essential to acquire the pest technology for them to produce products with the best quality. Even though he says that is my cost the company a lot, but still it's the best way to ensure the consumers satisfaction. Durmishi admits that his company needs more new equipment in order to complete their technology and increase the producing capacities. This can be afforded through 50 % of the company's savings, while the other half through bank loans. As this is expensive technology that is needed for milk processing they need some money left in the company for circulation.

Moreover the newest technology must be acquired from abroad. There are no companies that can provide newest technology in Kosovo. And this of course increases the prices even more.

In the last 36 months company has been able to launch 3 new products. It is essential to establish new products to maximize customer satisfaction say Durmishi. And they are still working on new products all the time.

An additional weakness of the company according to Durmishi is marketing and other departments. Company's structure needs improvements for them to be competitive in marketing, manufacturing and R&D. This issues arises due to money problem says Durmishi.

4.10 Kosovo as a place of Business

All three managers agree that getting access to finance is one of the major problems for SMEs growth in Kosovo. Main reason is lack of the collateral and overall banking system in Kosovo. Banks in Kosovo want to see positive figures for the past three years says Mr. Muzaqi the manager of Mak-Building. This of course means difficulties for businesses that

are in a starting point. Granting loan to SMEs in Kosovo is risky to banks because of the current situation.

Pestova's manager Kosumi thinks that it is difficult to get the access to finance because there are still some barriers from banking subjects which are insisting to be very restrictive to lend SMEs businesses in Kosovo. This is supported by a professional opinion that the risk in Kosovo is very present and high by one side and the banks are incapable to act in a risky environment by the other side.

Mr. Muzaqi says the possibilities to finance SMEs growth is the most difficult challenge to be over by all businesses and entrepreneurs. Government should be more involved and improve the situation by creating a better image and establishing authoritative and credible institutions in to enable SMEs growth in Kosovo. The country risk, the safety and security of investors, the infrastructure and the behavior of governmental agents must converge in this concern.

Aldi's manager Mr. Durmishi says companies get the access to finance mainly through relatives, neighbors in other words they get informal credit.

Managers of the companies state that the corruption is a really big issue in Kosovo. Some of the SMEs in Kosovo finds difficult to grow because of this.

All three managers agree that unfair competition is an issue in Kosovo. Fair competition establishment and promoting a competitive behavior on businesses plays a crucial role for an economic growth with macro benefits.

The economic situation is changing rapidly every year. Mr. Muzaqi says that now days there is better support from legal and governmental but as mentioned before the lacking point is the financial support and investments from abroad with the aim of enhancing national SMES. SMEs are providing better services and products for Kosovo citizens, but there is plenty room for improvement says Muzaqi.

When the same question about the change of SMEs in the past years was asked to Mr. Durmishi, he mentions that many SMEs bankrupted due the lack of demand or investment, whilst some of the companies in food industry got even stronger in recent years. Overall there is a slight growth of the SMEs in Kosovo during past years.

Mr. Kosumi had his own opinions about the changes in recent years. He mentions these as major changes in SMEs growth;

Change of tax rate and better functioning tax authority. Another one is the achieved experience on different area and more qualified and experienced manpower. Knowledge of other languages such as English is a key to success. Most of the Kosovars have fluent spoken and written English. Mr. Kosumi also sees changes also in support for basic legislation remedies for business. Also the presence of practical government institution engagement in providing better space for SMEs has changed in positive side.

4.11 Innovation

In now day business it is essential to be innovative if the company wishes to remain competitive. All the respondents of this questionnaire agree that they have to be creative and innovative to remain competitive.

Mr. Durmishi says despite the difficulties and changes that Kosovo SMEs face, the entrepreneurs are dedicated and still find the will and courage to operate, to be innovative to develop their actions in Kosovar market. This occurs even though Kosovo as now formed country is very poor and so are the conditions for work. Mr. Durmishi hopes that in the future things will get better and government gives to SMEs more opportunities to be innovative and its implementation process.

All three respondents agree that Kosovo does not yet have the sufficient conditions for SMEs to be innovative.

There are 87,960 small and medium-sized enterprises in Kosovo (Kosovo chamber of Commerce 2008) this is a huge amount when we consider that there are 2, 2 million inhabitants in The Republic of Kosovo. The enthusiasm and will to start a business is great.

5 ANALYSIS

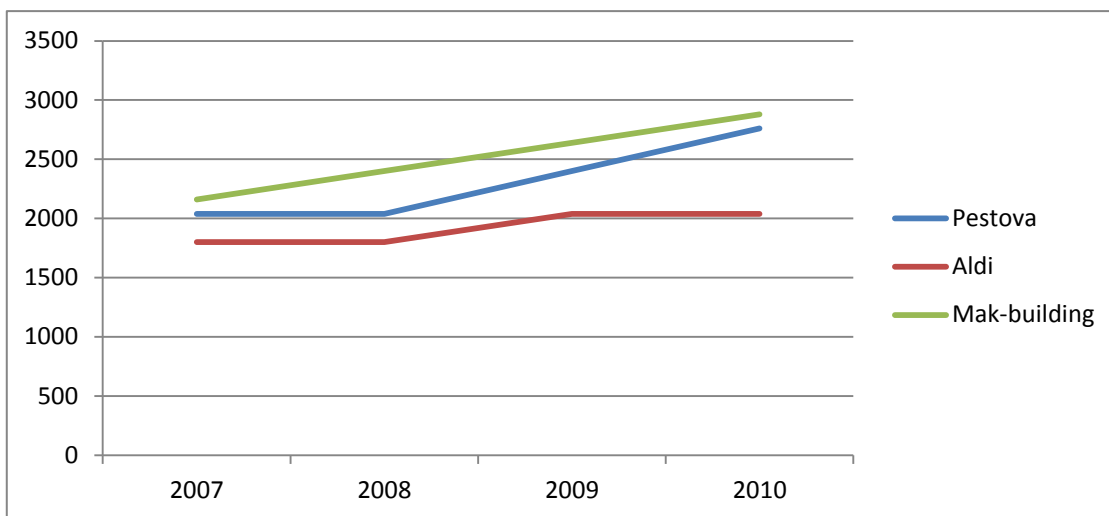
In this part empirical research will be analyzed with the support of the theoretical framework.

5.1 Analysis of the companies

In the following section the companies that were part of this research will be analyzed for the period 2007-2010. The data that was gathered is from the managers who were not able to give all the numbers in detail. The three companies were not able to give more information and the three parts that will be analyzed are the growth of income, salary and number of employees.

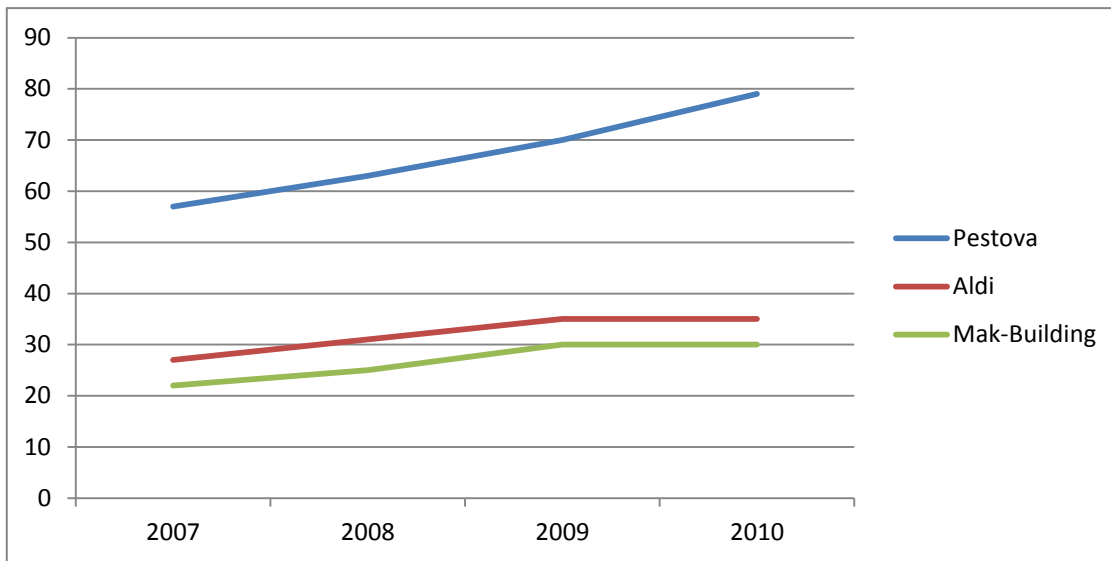
The first diagram will demonstrate the average salary of the employees. The average salary is rather similar between the companies and there has been a slight increase of salary especially Pestova company. Aldi company has paid quite similar salary past years.

Figure 6. Average yearly salary per employee during year 2007-2010



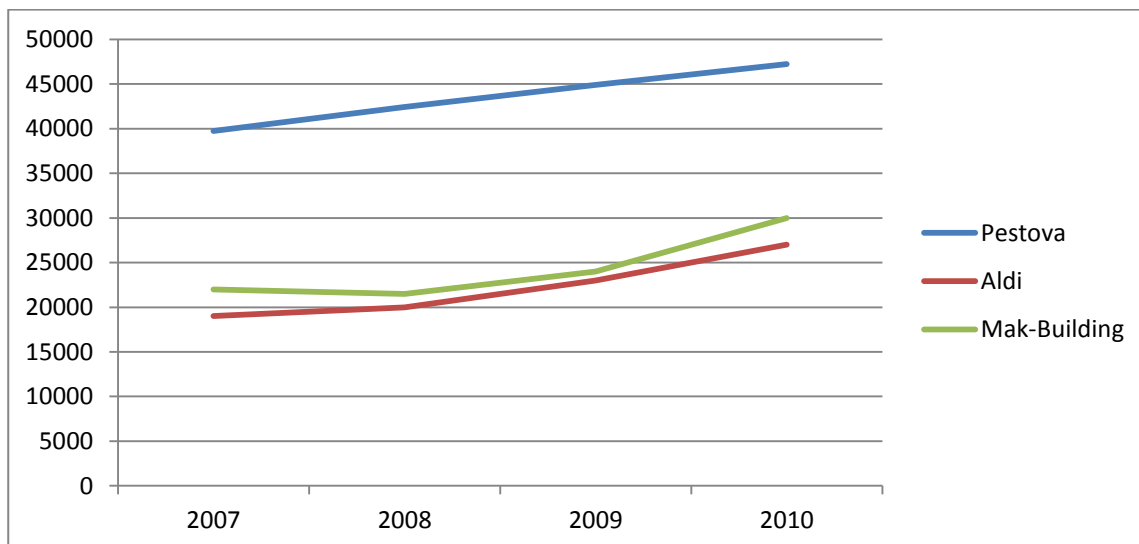
This diagram shows the average increase of firm growth in terms of number of employees. As we can see all companies have been growing, but Pestova has the highest grow in term of new employees.

Figure 7. Number of employees during year 2007-2010



The third diagram shows the income growth of the three companies. All three companies have an increase in their income. But as the diagram shows Pestova is quite ahead in income rate, it is quite difficult to compare Pestova with Mak-building, because both are in different industry. The food industry has been quite profitable in Kosovo for the past years.

Figure 8. Companies' income during 2007-2010



The three diagrams demonstrate that all companies have been growing slightly during these 4 years. Thou Aldi's growth has been quite stable which indicates that Aldi's turnover is smaller than other two companies.

Mak-Building faced a slight decrease in their income in 2008, due to tougher competition and restrictions that were given from the government. This restriction was given because the owner of the land where construction was made was not known and many of the construction companies didn't fill all the needed documents.

Pestova's has had a sustainable growth for the past years. Company has been able to launch new products in to the market, and the demand of food products is growing every year in Kosovo.

Comparing the average salary within the companies, they are all quite similar. Average salary is rather small, comparing with Finland for example. This does not just occur in these three companies, but all the companies pay quite similar salaries. The only organizations that pay higher salaries are the international ones. There are numerous foreign companies that attract especially well educated employees to work for them, and the payment difference is notable.

Low salary cost can influence the company's growth, in terms of unmotivated staff. Motivation is one of the key ingredients of business success, even in current economy crisis in Kosovo.

Pestova has increased the employee's salary 26 % (2007-2010). Company's income has increased as well which indicates better future for Pestova.

5.2 Analysis of factors influencing Kosovar SMEs growth

In this section both the external and internal factors influencing Kosovar SMEs to grow are analyzed. Authors of this paper have identified numerous important factors through the theory and empirical research conducted. Therefore the most important obstacles to grow will be explained.

5.3 External Factors

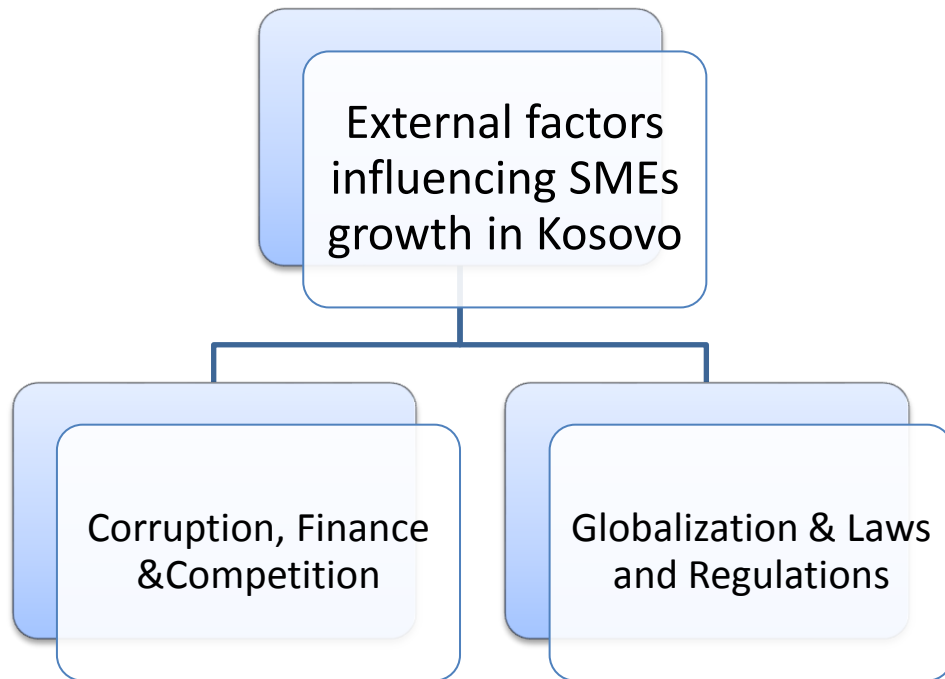


Figure 9. External factors influencing the growth of SMEs in Kosovo

5.3.1 Access to finance

With the analysis controlling for firm characteristics and using country fixed effects, micro firms are more likely to be credit constrained. Smaller firms tend to face more constraints when it comes to finance. Large firms are 85 per cent less likely to be credit constrained than micro firms. In addition, large firms are 97 percent more likely to have a loan or overdraft facility and 75 percent more likely to have a share of investment financed externally than micro firms. Comparing Medium sized and Micro sized enterprises we notice huge gap difference in financial sector. Medium-sized and Large-Sized have 32 and 43 per cent better chances to have sales credit, while small firms are about 19 per cent more likely to offer sales credit than micro firms (Dinh, Mavridis & Nguyen 2010, 13).

All three companies studied during this research started up with internal sources. This occurs with most of the new enterprises in Kosovo as they face difficulties to get external financial help. It is extremely difficult for entrepreneurs to receive a loan in Kosovo. The major issue here is lack of collateral and restrictions of banks towards firms with lower

capital. The firms that were studied started with their own capital. Pestova and Aldi Company are expanding their actions through receiving loan from the bank.

Banks in developing countries seeks if the business ventures future is bright and this way grant loans at the beginning, this how company has the possibility to fund upcoming expenses. Every company struggles at the beginning with different issues and it is very important that they get access to finance. Kosovo's company's main problem is getting loans from banks. After doing research and interviewing the managers for this thesis, authors consider access to finance as a major problem at start-up phase.

5.4 Competition

Another major factors influencing SME growth in Kosovo is competition, and especially unfair one. Many countries such as Serbia, Montenegro, Turkey and Albania produce similar products as Kosovar businesses. Complicated and costly procedures for starting a firm deter entrepreneurs for investing, or push them into the informal economy. This complicated procedures leads to less competition, unfair competition and affects negatively I investments. (World Bank 2010, p 23)

To any individual firm, competition poses a threat to survival, but in the same time competition is the main factor of economy growth as it derives firms to improve productivity and therefore drives growth. (Dinh, Mavridis & Nguyen 2010, 11)

External barriers experienced from entrepreneurs doing business in Kosovo are hardly observed elsewhere. For example, in the post-war period (2000-2002), the business environment was heavily characterized by the institutional vacuum followed by the lack of basic economic laws that would stop corruption and unfair competition. During recent years, there has been progress in establishing rule of law, but still it remains as main barrier for SMEs to success in Kosovo. (Hoxha& Capelleras 2010, 352)

All companies studied have identified that unfair competition is the main obstacle for firms' growth in Kosovo. Another great competition is received from abroad. Kosovar consumers tend to purchase products that are imported from abroad rather than the domestic ones. This indicates that the trust toward manufacturing companies in Kosovo is low. Another reason why consumers purchase foreign products is the quality. Domestic products tend to be low-quality products.

Competition in Kosovo differs in areas. Competition is really tough in capital city Pristina, which has the most developed technology and services. Again unfair competition is an issue here. Some of the companies have a really good relationship e.g. with politicians whose influence might have a great impact in companies success.

5.4.1 Corruption

Kosovo is facing various difficulties in many sectors, and one of them is ongoing corruption. The long-term consequences of corruption in a transaction economy, especially in Kosovo can be extremely harmful. Kosovo is currently undergoing a very difficult process of infrastructure reconstruction and economic policy development. Kosovar society is also working to establish democratic institutions and reform the political decisions making process. In past years great improvements have been made, but still it requires loads of time and effort to minimize corruption level in to zero. (Sadiku 2009, 3)

The EU is trying to fight against the crime and corruption, although it has not yet moved against any sensitive targets. A prominent newspaper columnist Beqe Cufaj says, “People overlooked high-level corruption because gaining independence mattered more. But now that has been attained, they are “seething”. Corruption is one of the main obstacles for the country’s economic development. It frightens foreign investors, who could have positive effect on employments rates, and this angers Kosovar citizens too.

Thesis authors see that corruption is present almost in every developing country. Fighting against corruption seems impossible; especially in a country that poverty rate is the highest in Europe. Kosovo first step limiting corruption needs to be taken from the government. First of all the government in its self is corrupted. How can corruption level be decreased if the government is guilty itself? There has been huge foreign investment in Kosovo and help packages, but still infrastructure is poor, taxation system is poor, and every daily service such as energy and water are poor. Where are all the billions that have been invested? Kosovo will not get rid of corruption if government does not change their way of investing in Kosovo.

All three companies see that corruption is present in their everyday business and is present in every field of business.

5.4.2 Laws and regulations

Corruption and unfair competition occurs in Kosovo due to lack economic laws. This occurred in the post-war period (2000-2002). This was perceived as the most severe one in doing business in 2001 and continued to be among the three top barriers in 2002 (Hoxha & Capelleras 2010, 7). Some positive changes has occurred in establishing rule of law (both substantive and procedural), but it has not been firmly established nor socially accepted (Hoxha & Capelleras 2010, 13).

The manager of Pestova Company mentions other governmental factor that hampers Company's growth in Kosovo; this is lack of electricity and water. The shortage of power supply followed by the other infrastructural factors is currently the main barriers to do business in Kosovo. In developing countries the entrepreneurs rarely mentions lack of electricity as the reason for company's success. (Hoxha & Capelleras 2010, 8)

Law and regulations is a lacking point, especially fighting against corruption and unfair competition. If everyone would have the same rights more innovative companies would be established. Kosovo's law is really tangled and most of the new laws are from abroad. Finland's former President Martti Ahtisaari had a great impact in Kosovo's independence. He was the person who negotiated the peace in Kosovo. Mr. Ahtisaari had a great impact on Kosovo's law and regulations.

In order for SME to succeed it is vital that Kosovo can build an adequate legal framework business. This includes well working court that ensures that disputes are resolved in an effective and timely fashion. As an example court in Kosovo needs to protect in issues such intellectual and industrial property rights, clarity over and ownership and minimal bureaucratic burden for small businesses.

Laws and regulations remains a significant challenge for Kosovo, even though there are some progress seen in land ownership but the commercial law remains incomplete and the capacity of the courts insufficient. (Mauring et al., 2007, 3)

5.4.3 Globalization

Globalization plays a big part in Kosovo's Economic growth. Most of the products and services are from abroad, and this of course affects in domestic companies. Domestic companies cannot compete with large companies because of the lack of resources.

Globalization, the new economy and the increasing geographic mobility of high productivity employment have all concentrated government attention on competing successfully in the global, knowledge-based economy. The quality of a country's labor is seen as crucial determinant of its global competitiveness. (Mustafa et al 2004, 27)

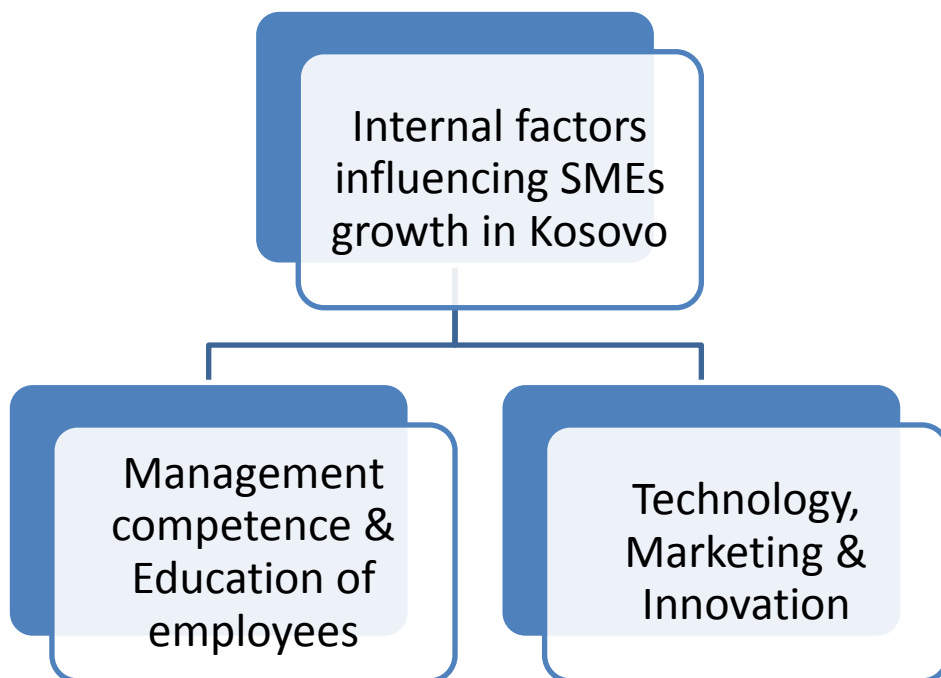
In authors opinion Kosovo will be an attracting country in near future for different industries to invest. Kosovo is located in central Europe which gives companies the benefit to import and export to the major European countries such as Germany, France, Spain, Italy and many more. At the moment some larger companies are present in Kosovo, but still foreign companies do not invest that much due to uncertain situation. Kosovo is recognized as an independent country by most of the developed countries; still the situation there is uncertain. Authors see that cheap labor force and knowledge and country location will be the main factors to global companies to invest.

Table 5. The main external influences affecting firm growth

	Pestova	Mak-Building	Aldi
Competition	Yes	No	Yes
Corruption	Yes	Yes	Yes
Location	Yes	Yes	No
Access to finance	Yes	Yes	Yes
Governmental Regulations	No	Yes	Yes

5.5 Internal factors

Figure 10. Internal factors influencing SMEs growth in Kosovo



5.5.1 Management competence

In SMEs a manager is often the only leader and strategist of the company, as it is in the case of the companies researched. A manager's views, experiences and knowledge together with the strategy have great influence in all operations of the company. In all the researched companies the manager of the company was part of all actions of the company from financing to marketing.

The managers have years of experience in their field of work and also some background education. Their interest and motivation to learn more and develop their companies has an influence on the growth of the company. The fact that Kosovo has such a high percentage of new businesses in recent years proves the enthusiasms and interest in business. Most of the new businesses are in the agriculture branch partly because there is experience and knowledge of that industry.

In small businesses where the decision making is centralized around the manager or owner his/ her motivation and encouragement also reflect straight to the employees. The motivation and teaching skills of SME owners in Kosovo have even a greater influence in employee motivation because of the difficulties to recruit skilled labor. The managers themselves guide the new employees to their jobs and reflect their views onwards. The globalizing world gives more demands to the managers as they are so centrally responsible for developing the company and its product.

5.5.2 Employee education

The managers mentioned to have difficulties finding skillful workers and they have had to plan specific orientation programs for employees. The planning of the orientation takes time and also the actual orientation which leads to growth slowing down. The lack of skilled labor in Kosovo demands companies to allocate more money and time to show the employees the ropes. It takes resources from focusing on developing the company. Training and developing the staff is of course crucial to every company to ensure quality and efficiency, but in Kosovo the training often has to start right from the basics.

The lack of skilled labor hits the researched companies on the production side and also the administrative side of the companies' functions. The administrative jobs and for example marketing is left for the managers because there are no specialists available or

not interested in working for an SME. it is difficult to develop the company structure and grow if one has to train all employees from the beginning. The educational infrastructure affects SMEs growth in Kosovo greatly.

It is also hard for SMEs in Kosovo to retain the employees they have trained when they cannot offer competitive compensation to the employees because external factors.

5.5.3 Technology

Again the researched companies have great interest and plans for developing and upgrading their company's technology base. The managers have realized that investing in technology will improve competitiveness especially against the illegally operating companies, because technology improves quality and the illegal companies can only compete in price. Acquiring new technology is in all the researched companies' strategies and it is seen as a profitable way to increase productivity and quality to gain competitive advantage. The financing of the new technology on the other hand was in some cases difficult. No outside investments were available and mostly the technology investments were financed with company's own resources.

5.5.4 Marketing

SMEs in Kosovo have not been able to invest in marketing yet because of lack of resources in education. The managers in Kosovo did mention marketing as a lack in their operations but as it often is they didn't see it as significant as for example developing distribution channels, investing in technology and pricing competition. The marketing department being limited to the manager will slow down the company's expansion projects. Pestova has been able to increase their market share and even market their products abroad; they even had in mind more expansions. They had been able to allocate money and people to the marketing department, to research the new market areas and target their product to larger groups of customers.

5.5.5 Innovation

Management attitude has a crucial role in innovation. In Kosovo the managers recognized the importance and role of innovation, but as SMEs they did not yet have any research and development operations. Innovation greatly relies on investments on research and

development. In Kosovo those investments are still small, if existing, so innovation in Kosovar SMEs is mostly still only an idea and not specifically implemented. Innovation can of course be seen in the managers multitasking of roles in the company.

SMEs in Kosovo still have to be dedicated and courageous to tackle the competition in the globalizing world and especially in the unequal environment that Kosovo still is in. One has to stand out with a quality, competitive and well marketed product.

Table 6. The main internal influences affecting firm growth

	Pestova	Mak-Building	Aldi
Technology	No	No	Yes
Education	No	No	No
Experience	No	No	No
Innovation	Yes	Yes	No
Skilled labor	Yes	Yes	Yes

6 CONCLUSION AND DISCUSSION

The purpose of this study has been to identify and analyze the main factors influencing the growth on Kosovar SMEs. The aim of the final chapter is to answer the research questions of the thesis. Conclusions are drawn based on the analysis from the previous chapter. Suggestions for further studies will be discussed as well in this chapter.

6.1 Research question 1: What are the external factors influencing the growth of SMEs in Kosovo?

Numerous external factors influencing the growth of SMEs in Kosovo have been identified during this research. As in literature part suggests, the access to finance is the lacking point in Kosovo, especially for SMEs in the period of starting a business. The empirical research also demonstrates that financing an issue, though, the firms studied in this thesis have all overcome this problem since they were able to start up a business with internal resources and have been able to receive loans and startup capital from close family. However, the firms agree that limitations of funding have restricted them in certain aspects for example having possibilities to increase their business actions. All three managers mentioned the external financing as an obstacle for further growth. More finance help is needed for marketing, R&D and technology.

Corruption has also been identified as a very important factor both in the literature reviewed and by the interviewees. Many Kosovar SMEs face problems with corruption especially in sustainable development. Companies do not have the same rights and opportunities to run business. In a country that lives in poverty this is ongoing issue. Thus major changes can be seen in this area, and Kosovo is receiving external help from EU and other international organizations.

Competition was also mentioned in literature and in empirical part, especially unfair competition. Companies are facing problems to increase their income because of this. Companies in some area do not pay state taxes and this way they have lower prices, so the price competition is present.

Political instability is an issue in Kosovo. Kosovo is an independent country, but is not recognized by all countries and most of larger companies do not yet take the risk to invest in Kosovo. The country is facing still problems with Serbia that enables Kosovo's development process. Serbia is applying a membership in EU. Most of the EU countries

have recognized Kosovo as an independent country and authors see that Serbia will do the same in the future, especially if they want to have a membership in EU and wish a development in their economy.

Overall there are numerous external issues in Kosovo now and in the near future. It requires time and effort now and in the future in Kosovo in to see positive figures in economy. Parts of these developments process are companies in Kosovo. Most of them are micro-sized, but with the external help they have the opportunity to become SMEs. Good examples for economy development are Croatia and Slovenia that also have been part of Yugoslavia. These two countries have been able to develop their economy rapidly, so this gives belief for growth in Kosovo's economy.

Location was considered in theoretical part as an obstacle for SME growth and so did the interviewees. This occurs because infrastructure is better in Northern part of Kosovo where the capital city is also located. Companies that are close to capital city are in favor to get access to information, support, distribution and transport.

6.2 Research question 2: What are internal influences affecting the growth of SMEs in Kosovo?

During this research, in the literature review and the empirical part a number of internal factors affecting Kosovar SMEs growth were identified. This study has revealed the most significant one to be the lack of skilled labor in Kosovo. The lack of skilled labor derives from a poor educational infrastructure and the ability of SMEs to attract skilled employees over LEs. Investing in training new employees was seen the best option, even though it requires extra resources. This consequently is one of the major constraints for Kosovar SMEs growth. Even though SME managers have experience and the basic knowledge of business more resources should be invested in attracting skilled labor, since this issue correlates to the firms growth possibilities.

On the other hand resources should also be invested more into Marketing and Innovation. At the moment biggest investments had been done in new technology. The technology investments had improved productivity and quality, but marketing and knowledge of new markets was poor. Also the research highlighted that the companies were focusing their

competitive advantage to pricing and improving quality, but not investing in marketing their product which would also give leverage.

Concerning culture, Kosovar SMEs tend to be courageous but have very centralized management, which constrains the manager greatly and limits inputs of employees. The knowledge of other languages and the courageous attitude is a positive that will help Kosovar firms grow.

6.3 Discussion

Respondents in this research mentioned these internal and external factors influencing SMEs growth in Kosovo. These issues are only part of the problems occurring in Kosovo, There are still many other obstacles affecting SME growth in the country. As discussed in the analysis part, all three companies have been able to increase their income in past years. However, the respondents faced same internal and external factors as an obstacle for growth. It could be argued that political instability and limitation in finance leads to corruption and make SMEs more vulnerable.

6.4 Suggestion for further research

This thesis has studied three companies in Kosovo during a certain period and their internal and external factors influencing the growth. To have clear understanding for the company's current situation the managers were interviewed through questionnaire and a phone call. During this study authors have come across various areas influencing SMEs growth in Kosovo. Comparing three companies in different industry would give us more clearly understanding of the growth factors in Kosovo. The potential could also be investigated in the future. Kosovo has loads of reasons to invest and these reasons could be researched. The country is facing many problems at the moment, and doing a research of near future and what could be changed would be interesting for readers and investors.

Also comparison between two countries e.g. Kosovo and Finland would be interesting to see how a country that is so innovative and technology advanced differs from a country that lack almost in every sector.

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Questionnaire to the companies

1. How is the current situation of your company?
2. What is your company's growth strategy?
3. How do you measure growth in your company?
4. What are the goals of your company?
5. How do you see the future of your company? Training, technology and competition
6. What kind of education and business experience do you have?
7. Do you feel it is easy to find skilled employees?
8. How do you train your employees?
9. Has your firm in the last 36 months been involved in the following, if You have could you give examples:
 - Introduced a totally new product?
 - Acquired completely new technology?
 - upgraded an existing product line?
10. Do you have all the needed technology in your company? If not, what are the obstacles to purchase them?
11. How would your company finance an expansion or an investment in new technology?
12. How is the competition in your business field and local area?
13. Are you facing any problems with the competition? What kind of problems?
14. How important is location for your company?

Kosovo as a place of business

15. What are the major factors influencing SMEs growth in Kosovo?
16. What are the main advantages that Kosovo offers for your company, and disadvantages?
17. Does SMEs in Kosovo face problems in attracting skilled labor and skillful business leaders?
18. Are there any governmental law restrictions that influence in the growth of your company?
If there are, can you mention some of the obstacles?
19. Do you think corruption is a problem for Kosovar SMEs?
20. How innovative are Kosovar enterprises?
21. What is your opinion on how interested are young people in Kosovo in becoming entrepreneurs?
22. What are the main changes in the Kosovar SMEs situation during the past years?

Questionnaire to the companies (in Albanian)

1. Cila eshte situata aktuale ne kompanine tuaj?
2. Cila eshte strategjia e zhvillimit te kompanise suaj?
3. Si e matni zhvillimin/rritjen e kompanise suaj?
4. Cilat jane qellimet e kompanise suaj?
5. Si e shihni te ardhmen e saj?
6. Cfare pervoje shkollore dhe te biznesit keni?
7. A mendoni se eshte e lehte qe te gjinden punetore te shkathet?
8. Si I trajtoni punetoret tuaj?
9. A ka qene e perfshire ne 36 muajt e fundit kompania juaj ne te meposhtmet, nese po a mund te jepni shembuj:
 - prezantim I nje produkti krejtesisht te ri?
 - perfituar teknologji krejtesisht te re?
 - avancimin e linjes ekzistuese te prodhimtarise?
10. A e keni te gjitha teknologjine e nevojshme ne kompanine tuaj? Nese jo, cilat jane pengesat per sigurimin/blerjen e saj?
11. Si do ta financonte kompania juaj nje zgjerim apo investim ne teknologjine e re?
12. Si eshte konkurenca e biznesi tuaj ne vendin tuaj?
13. A keni hasur ne ndonje problem me konkurencen? Cfare problemesh?
14. Sa eshte I rendesishem lokacioni I kompanise suaj?

Kosova si vend I biznesit

15. Cilet jane faktoret kryesor qe ndikojne ne zhvillimin e NVM (ndermarrjeve te vogla dhe te mesme) ne Kosove?
16. Cilat jane perparesite qe Kosova ia ofron kompanise suaj, e cilat jane joperparesite?
17. NVM ne Kosove a kane problem qe te terheqin pune te shkathet dhe lider biznesi te shkathet?
18. A ka ndonje restrikcion ligjor nga qeveria, qe ndikon ne zhvillimin e kompanise suaj? Nese po, a mund t'I permendni disa prej pengesave?
19. A mendoni se korrupsioni eshte problem per NVM te Kosoves?
20. Sa jane innovative ndermarrjet e Kosoves?
21. Cili eshte mendimi juaj, sa jane te interesuar te rinjet e Kosoves qe te mirren me ndermarrje?
22. Cilat jane ndryshimet kryesore te gjendjes se NVM te Kosoves gjate viteve te fundit?

Answers to questionnaire: Aldi

Private Trade Enterprise “Aldi” – Milk factory- Mitrovica; Director: Gani Durmishi

1. How is the current situation of your company?

Income: 27 000 €

Sales/Revenue:

Number of Employees: 35

Incomes of our company derive from family business and from bank loans, occasionally we benefit from the grants offered by different organizations. Revenues derive from sale of our products to small shops, to public enterprises and to restaurants and hotels.

2. What is your company’s growth strategy?

For example: Are you interested in increasing the revenue of you company, are you planning to expand your company, or are you planning to hire more employees

Our company’s strategy is that through quality and hygienic products to attract consumers, as well as to offer to our customers a fresh, traditional food that meets EU standards. Also part of the strategy is to increase sale rate of the products, as a result to increase our sale and producing manpower; to start with processing milk products in order to meet market needs.

3. How do you measure growth in your company?

For example: income, sales, business partners, how international is your company

All above mentioned; We are part of regional market

4. What are the goals of your company?

Goals of our company are to come up with brand new products, as well as increase capacity number of employees.

5. How do you see the future of your company?

In a midterm future of our company, we foresee growth of our company, because based on the researches that we did, it shows up that our products are demanded each day more and more, and comparing our company’s development from seven years ago, we see increase of 300% from that time to now.

Training, technology and competition

Yes we attend almost every relevant training that is being held in Kosovo, and when possible in

the neighboring countries as well. These trainings help us to gain more knowledge on new products and achieve fair competition in our Market with other similar companies.

6. What kind of education and business experience do you have?

Three officials of our company have superior education, one is attending University and other 28 remaining ones have average education background supported by professional training.

7. Do you feel it is easy to find skilled employees?

It is difficult to find proper skillful people due to different specifics of our company, but we manage to do so.

8. How do you train your employees?

When we hire new employees, initially we inform them with the overall situation of our company, get them aware with the technology used in our company; with advantages and disadvantages that our employees might face during the work, how to use company equipments, how to deal in certain situations, how to protect himself from potential risks while working, which are protection devices in our company, etc., with another words we let them know with potential challenges. In addition to this our new employees initially go through code of conduct procedure in our company.

9. Has your firm in the last 36 months been involved in the following, if You have could you give examples:

- Introduced a totally new product? **Yes new cheese crème with paprika species that we introduced, was very much welcomed in our market**
- Acquired completely new technology? **We purchased new equipment and current technology got more advanced**
- upgrated an existing product line? **Strengthening current product line.**

10. Do you have all the needed technology in your company? If not, what are the obstacles to purchase them?

We need more equipment in order to complete our technology and increase our producing capacities. This can be afforded though through 50 % of our company money, while remaining 50 % we need to provide through bank loans, as this is a expensive technology that is needed for milk processing and we need some money left in the company for circulation. Moreover equipment has to be purchased abroad, as with this kind of equipment, Kosovo marked in not

equipped with; this increases the price even more...

11. How would your company finance an expansion or an investment in new technology?

Through increase of benefit as well as through loans

12. How is the competition in your business field and local area?

Unequal as in northern border of Kosovo is not administrated and illegal companies operate very much. They pay no state taxes, and are with lower price. This makes possible that lot of products with expired dates enter in Kosovo market and endangers people's life and our company's reputation.

13. Are you facing any problems with the competition? What kind of problems?

Unfair competition

14. How important is location for your company?

The location is important, and we are located in suitable area. It is in Mitrovica, but Kosovo in general is attractive location for our business and other investments by the International Community.

Kosovo as a place of business

15. What are the major factors influencing SMEs growth in Kosovo?

People consume our products. This is particular for agriculture SME growth in Kosovo. Milk and its products are essential daily needs of Kosovo people. SMEs in Kosovo are very attractive for the market as it requires less budget, it is easy to manage and have it under control as well as to observe potential problems.

16. What are the main advantages that Kosovo offers for your company, and disadvantages?

Advantage is the available labor people. There is high unemployment in here and it enables to hire (young) people and in comparison with region, manpower costs much lower; also we possess great consumer market to fill their needs. Milk is essential product and we face no problem in running our business successfully.

Disadvantage is high state tax of 16 %, regular power cuts influence very negatively in our work, and poor electrify quality in general.

17. Does SMEs in Kosovo face problems in attracting skilled labor and skillfull business leaders?

Yes we face such problems

18. Are there any governmental law restrictions that influence in the growth of your company? If there are, can you mention some of the obstacles?

VAT tax rate of 16 % for all products, no protection of local (home) products, non support with proper provide with electricity, water, non equal opportunities are main obstacles that Kosovo SMEs are facing.

19. Do you think corruption is a problem for Kosovar SMEs?

Corruption is a problem, as you cannot win a tender in the right way. Usually people that pay bribery or corrupt bid issuers in Kosovo, benefit in having certain bid won. Corruption is very much present...

20. How innovative are Kosovar enterprises?

Despite difficulties and challenges that Kosovo SMEs face, Kosovo Entrepreneurs are dedicated and still find the will and courage to operate, innovate and develop in Kosovo market, even though Kosovo as now formed country, is very poor, so are the conditions for work; but there is a hope that not in a far future things will get better and we will be operating fairly through proper legislation and its implementation.

21. What is your opinion on How interested are young people in Kosovo in becoming entrepreneurs?

Young people in Kosovo are not very much interested in becoming entrepreneurs, due to the lack of practical experience, and also they lack motivation due to the low income rate in Kosovo, and in this regard they compare good condition for enterprises abroad versus poor conditions in Kosovo.

22. What are the main changes in the Kosovar SMEs situation during the past years?

- **Some SMEs bankrupted due to the lack of Market or lack of investment, whilst some companies, such as 'Vipa chips', 'Vita –milk' Peja, Food oil company 'Vital' etc got even more strong in recent years. So in general there is slight growth of the SMEs in Kosovo during past years.**

Answers to questionnaire: Pestova

Private Trade Enterprise “Pestova”; Director: Bedri Kosumi

1. How is the current situation of your company?

Income: **47.218.05 Euro**

Sales/Revenue: **4.218.385.58 Euro**

Number of Employees: **79**

2. What is your company’s growth strategy?

For example: Are you interested in increasing the revenue of you company, are you planning to expand your company, or are you planning to hire more employees

Our company’s strategy is reducing expenses, increase and width of the market, and market penetration into European Union

3. How do you measure growth in your company?

For example: income, sales, business partners, how international is your company

All above mentioned; We are part of regional market

4. What are the goals of your company?

To become leaders in our country and in the Region

5. How do you see the future of your company?

See answer 2

Training, technology and competition

Yes we aim to have strong and professional Training, technology and fair competition

6. What kind of education and business experience do you have?

Pretty good and sufficient business background as well as relatively good educational experience.

7. Do you feel it is easy to find skilled employees?

It is difficult but we manage somehow

8. How do you train your employees?

Through concrete and specific demonstrations

9. Has your firm in the last 36 months been involved in the following, if You have could you give examples:

◦ Introduced a totally new product? **Six (6) new products**

- Acquired completely new technology? **Two product lines**
- upgraded an existing product line? **Strengthening substantially the existing product line**

10. Do you have all the needed technology in your company? If not, what are the obstacles to purchase them?

We have all needed technology, the latest one

11. How would your company finance an expansion or an investment in new technology?

Through increase of benefit as well as through loans

12. How is the competition in your business field and local area?

Unequal with foreign companies

13. Are you facing any problems with the competition? What kind of problems?

Unfair competition

14. How important is location for your company?

The location is important, but more dominant is the quality and services that we provide

Kosovo as a place of business

15. What are the major factors influencing SMEs growth in Kosovo?

Providing enterprise nature conditions and environment with security and responsibility enabled by the government

16. What are the main advantages that Kosovo offers for your company, and disadvantages?

Advantage is the density of the population as well as the young average of populations age, whereas disadvantage is the unfair competition

17. Does SMEs in Kosovo face problems in attracting skilled labor and skillful business leaders?

Yes we face such problems

18. Are there any governmental law restrictions that influence in the growth of your company? If there are, can you mention some of the obstacles?

Same VAT tax rate of 16 % for all products, no protection of local (home) products, nonsupport with proper provide with electricity, water. ..

19. Do you think corruption is a problem for Kosovar SMEs?

Corruption in Kosovo is present is in all fields of work.

20. How innovative are Kosovar enterprises?

Innovation in Kosovo is poor, so are the conditions for SME

21. What is your opinion on How interested are young people in Kosovo in becoming entrepreneurs?

Young people in Kosovo are very much interested in becoming entrepreneurs, but they face lots of difficulties

22. What are the main changes in the Kosovar SMEs situation during the past years?

- Change of Tax rate
- The achieved experience
- Better functioning of Kosovo Tax Authority (KTA)
- More qualified and experienced manpower (workers)
- Knowledge of other languages
- Expansion of Internet and IT
- Support with basic legislation remedies for business
- There is presence of practical government institution engagement in providing better space for SMEs in Kosovo
- Kosovars are SME oriented soul, but not the Government though!

Answers to questionnaire: MAK Building

Private building Enterprise “BUILDING” – Vushtrri, Kosovo

1. How is the current situation of your company?

The current situation in our company is relatively good. Approximately we have six major construction (and renovation) projects per year. Pure income per year is around 30.000 Euro.

The total number of regular employees is 30.

Income: **30.000 Euro**

Sales/Revenue:

Number of Employees: **30**

2. What is your company's growth strategy?

For example: Are you interested in increasing the revenue of you company, are you planning to expand your company, or are you planning to hire more employees

Our company's strategy is to increase revenues, we plan to enlarge our company, as well as hiring more employees

3. How do you measure growth in your company?

For example: income, sales, business partners, how international is your company

Incomes and projects are measure of our growth. We as a company are not present abroad.

4. What are the goals of your company?

To be successful in our performance as well as providing best quality though our work.

5. How do you see the future of your company?

We see future with more projects, and of course including training, best technology and fair competition

Training, technology and competition

6. What kind of education and business experience do you have?

The management staff of our company has very good educational experience. We have qualified engineers as well as lots of professional experience in construction. Also we possess good business background experience in this field of work.

7. Do you feel it is easy to find skilled employees?

It is not easy to find the best skilled employees, but we manage to select skilled ones

8. How do you train your employees?

Through training and demonstration in the (pre) construction period.

9. Has your firm in the last 36 months been involved in the following, if You have could you give examples:

- Introduced a totally new product? **Yes**
- acquired completely new technology? **Yes**
- upgraded an existing product line? **Yes**

10. Do you have all the needed technology in your company? If not, what are the obstacles to purchase them?

We have all needed technology, we face no obstacles in our work.

11. How would your company finance an expansion or an investment in new technology?

Based on the project.

12. How is the competition in your business field and local area?

There is huge competition in our business field.

13. Are you facing any problems with the competition? What kind of problems?

We face no problems so far

14. How important is location for your company?

The location is important, but more significant is the quality of work that we provide

Kosovo as a place of business

15. What are the major factors influencing SMEs growth in Kosovo?

The technology is the major factor that influences in SME growth in Kosovo is.

16. What are the main advantages that Kosovo offers for your company, and disadvantages?

Accomplishing successfully the certain project is advantage for the future, whereas with non-successful/unprofessional accomplishment of a project, disadvantage derives and as a consequence it is very difficult to correct it. This might cause los for us and benefit for other companies in the same field of work

17. Does SMEs in Kosovo face problems in attracting skilled labor and skillful business leaders?

Yes, even though we don't face such problems in particular, SMEs in general in Kosovo do face such problems

18. Are there any governmental law restrictions that influence in the growth of your company? If there are, can you mention some of the obstacles?

We face no legal restriction that influence in the growth of our company

19. Do you think corruption is a problem for Kosovar SMEs?

Yes corruption in Kosovo is present.

20. How innovative are Kosovar enterprises?

Innovation in Kosovo is not very much present

21. What is your opinion on How interested are young people in Kosovo in becoming entrepreneurs?

People in Kosovo are interested in working with enterprises, but there is no sufficient support

22. What are the main changes in the Kosovar SMEs situation during the past years?

Situation in Kosovar SMEs is changing through time. There is better support from the legal and government side. However, there is need for financial support and investments from abroad with the aim of enhancing national SMEs. Moreover, SMEs even though are providing better services for the Kosovo citizens, yet SMEs must fight for better quality, fairness and promotion of their work.